

2006 Real Estate Forecast

Northern California/Reno



San Francisco Bay Area
Sacramento
Fresno
Reno

Northern California/Reno



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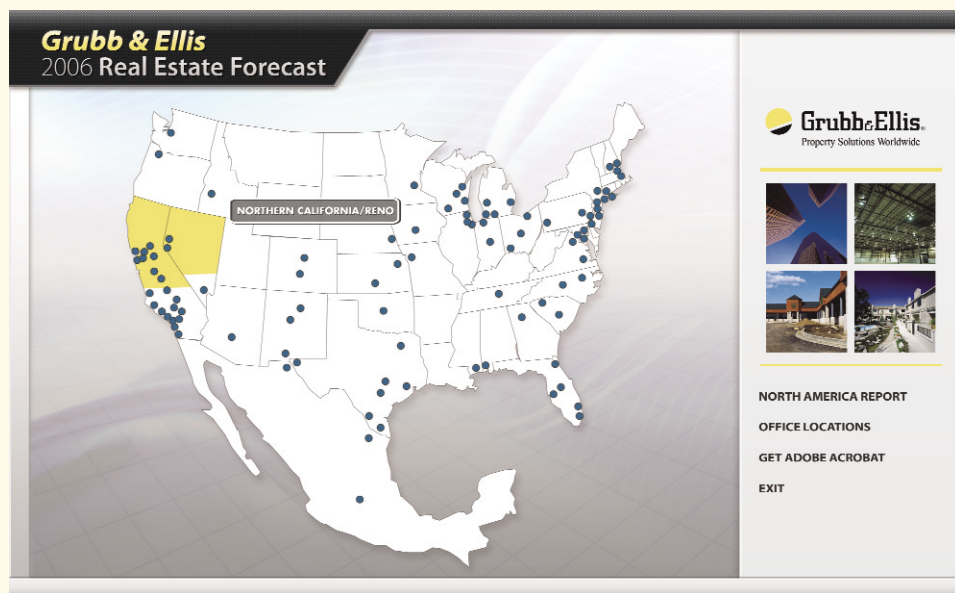
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Note: Year-end 2005 numbers include estimates for the fourth quarter that were derived in November. Final published numbers may vary slightly. Totals may not add precisely due to rounding.

In last year's forecast, we dubbed 2005 "the Year of Goldilocks," because we thought the economy would be strong enough to propel the leasing market, but not strong enough to cause a spike in interest rates that would derail the investment market. Our prediction was right on target.

The leasing market tightened in most product categories, while low mortgage rates and recovering rental rates extended the investment market's bullish streak. On closer examination, we must admit that real estate performed even better in 2005 than we had expected. Credit a robust labor market that finally began to accelerate, long-term interest rates that stayed amazingly low even as the Fed raised short-term rates (Greenspan's "conundrum"), and construction cost inflation that kept new supply from overheating.

For 2006, we see the real estate market maturing. Expect around 2 million new payroll jobs, enough to propel vacancies lower and rental rates higher. But construction will also pick up, and the pace of recovery will moderate. Expanding trade with China and other nations will create more demand for warehouse/distribution space near ports, airports, rail hubs and key interstate highways. Long-term interest rates finally will rise as the Fed continues to pump up short-term rates, making deals more difficult to pencil out for highly leveraged private investors. Institutional and foreign capital is likely to take up the slack, keeping any rise in capitalization rates to a minimum.

Within these broad trends lies a range of local market nuances that create both challenges and opportunities for tenants, landlords, buyers and sellers. From more than 100 offices located throughout the United States, Grubb & Ellis' experienced brokerage and management professionals can help interpret precisely how these affect your requirements.

As one of the leading full-service commercial real estate companies, Grubb & Ellis provides a complete range of transaction, management, consulting, corporate and investment services for local and multi-market clients. For nearly 50 years, we have built a reputation for leveraging local expertise with our global reach to deliver customized solutions and seamless service to owners, corporate occupants and investors around the world.

We hope you find the information in our 2006 Forecast to be a valuable resource. We also look forward to discussing how Grubb & Ellis can leverage our world-class platform to help you meet your specific real estate and business goals.

Sincerely,



Mark E. Rose
 Chief Executive Officer
 Grubb & Ellis Company

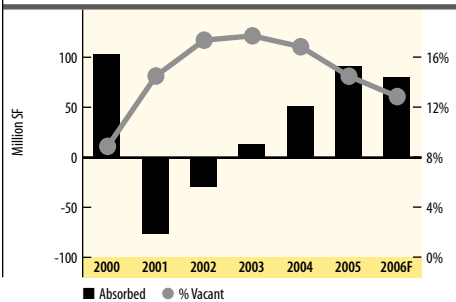
Table of Contents

National Overview	2
Northern California/Reno Overview	6
San Francisco Bay Area	7
Sacramento	14
Central Valley	19
Fresno	20
Reno	24
Company Profile	28
Grubb & Ellis Research	30
Contributors and Sources	31
Office Directory	32

National Overview

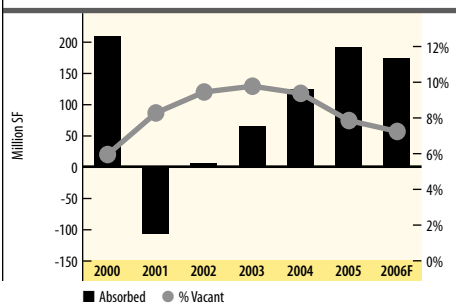
In 2006, market conditions will be similar to 2005, but there will be some mid-course adjustments necessary for tenants, landlords, buyers and sellers.

U.S. Office Vacancy and Absorption



Source: Grubb & Ellis

U.S. Industrial Vacancy and Absorption



Source: Grubb & Ellis

Office and Industrial Review and Forecast Year-End

Office Market	2005 Actual	2006 Forecast
Vacancy rate	14.5%	12.8%
Class A CBD rental rate ¹	\$37.70	\$39.59
Class A suburban rental rate ¹	\$25.25	\$26.77
Net absorption	91 MSF	80 MSF
Space completed	19 MSF	25 MSF
Industrial Market		
Vacancy rate	7.9%	7.2%
Warehouse/distribution rental rate ²	\$4.48	\$4.70
R&D/flex rental rate ²	\$9.20	\$9.66
Net absorption	190 MSF	175 MSF
Space completed	99 MSF	125 MSF

¹ Asking rental rate per square foot per year full service

² Asking rental rate per square foot per year triple net

2005: A Review

In our 2005 forecast, Grubb & Ellis said:

"In many respects, the slow to moderate growth forecast for 2005 is nearly ideal for real estate. It should be strong enough to propel vacancies lower by year-end 2005, yet it is not strong enough to push interest and mortgage rates sharply higher...." Not too hot and not too cold, in other words.

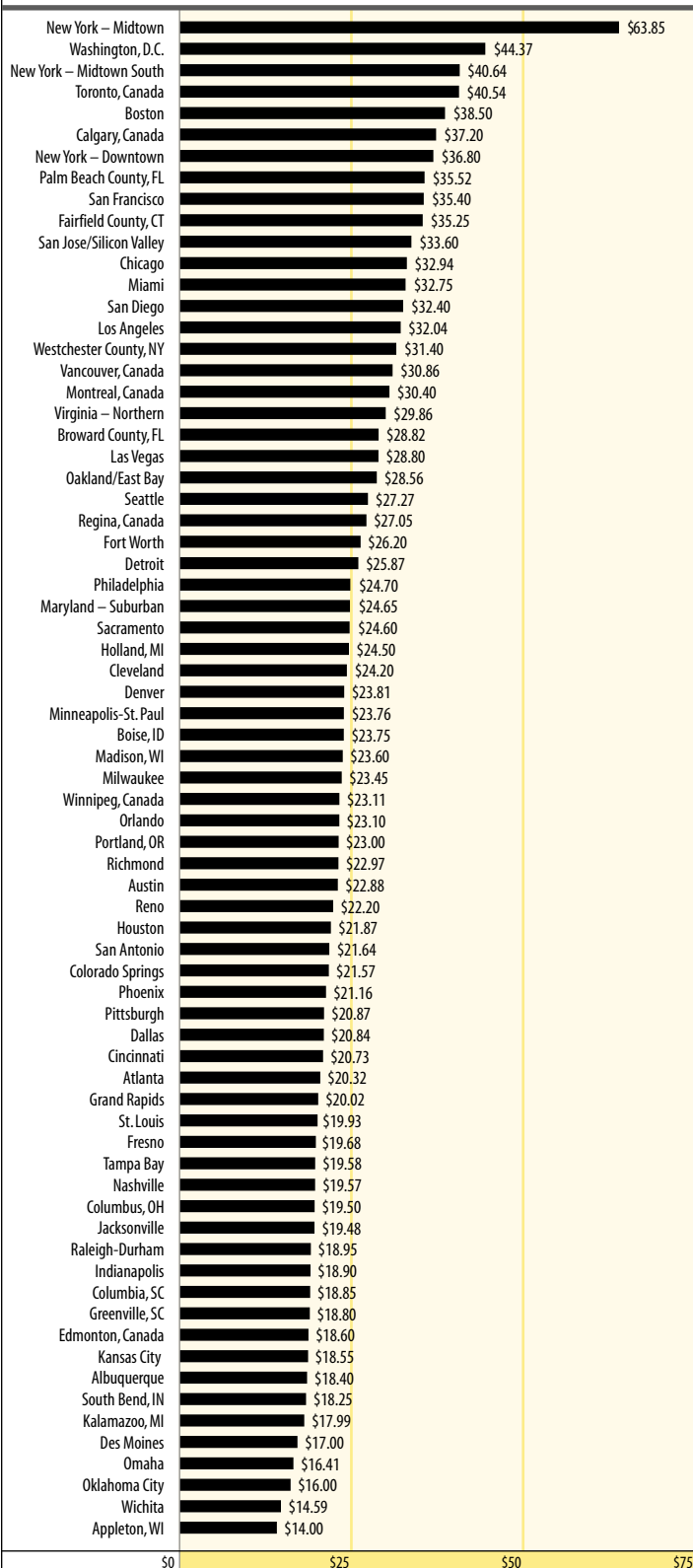
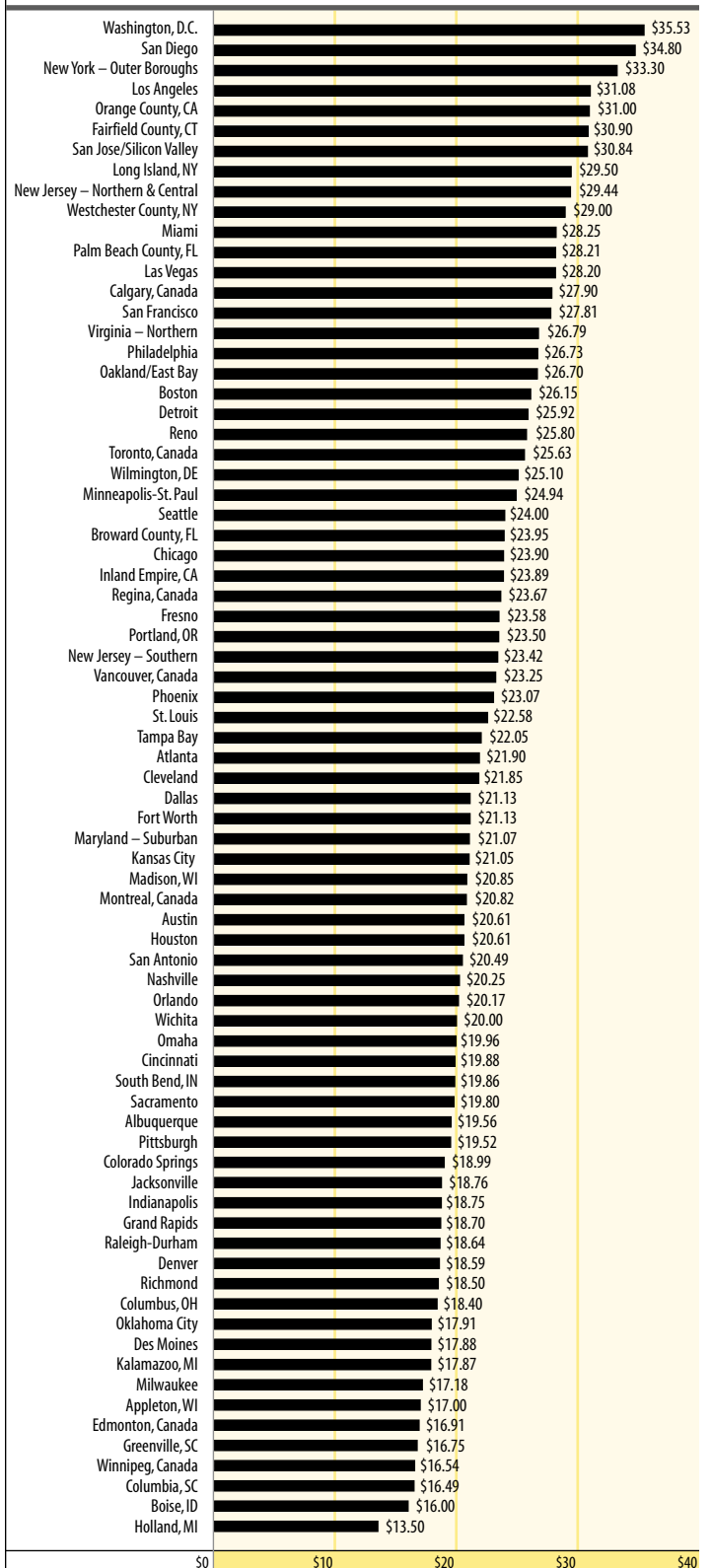
That is exactly what happened. But on closer inspection, demand from both tenants and investors proved even stronger than expected, making the industry's overall performance in 2005 the strongest since the bubble-induced excesses of 2000.

The jobless recovery finally ended in January 2005 when total payroll employment surpassed the prior peak set in February 2001, just before the onslaught of the 2001 recession. Year-to-date through November, the labor market has generated 1.8 million net new jobs and appear to be headed toward an annual total of 2 million despite Hurricane Katrina. The growing labor market fueled demand for office space in 2005, while new supply stayed low, pushing down vacancy rates and firming up rental rates. Consumer spending remained surprisingly buoyant in the face of higher energy prices, supporting shopping center leasing activity. The seemingly indestructible housing market once again restrained apartment leasing activity, but apartment vacancy rates finally began to recede as the expanding labor market encouraged the formation of new households and developers converted rental properties into condominiums. Robust imports

from China fueled steady demand for state-of-the-art warehouse/distribution space, while job creation among smaller companies coupled with low interest rates created insatiable demand for owner-occupied industrial buildings and commercial condos.

Even from the tenant's perspective, 2005 turned out to be a good year. Businesses in most sectors of the economy racked up healthy profits. At the same time, rental rates in all but a few hot markets rose only modestly above their cyclical lows of 2004. Landlords in some markets continued to offer attractive concessions packages, especially in exchange for long-term leases, while tenants renewing leases that were signed five years ago at the height of the dot-com bubble reaped substantial savings. The tenant's market, now in its fourth year, is beginning to show its age. Conditions began to shift in favor of landlords, but a true landlord's market is still a few years away in most areas.

To understand how fortunate the real estate industry was in 2005, compare conditions to two or three years ago when the economy was mired in a jobless recovery, vacancy rates hovered near their cyclical peaks and the Federal Reserve began raising short-term interest rates. The industry looked poised to embark on a protracted recovery cycle compounded by tighter credit that, at best, would make real estate less attractive to investors and, at worst, would create a bull market for the vulture funds that were beginning to circle.

CBD Class A Office Rental Rates
 Year-End 2005

Suburban Class A Office Rental Rates
 Year-End 2005


Rental rate data refer to average asking rental rates for Class A space that is available on the market at the end of 2005. Rates are per square foot, quoted on an annual, full service gross basis. Canadian data are courtesy of Avison Young. Canadian rental rates are in U.S. dollars using the exchange rate of \$1 Canadian = \$0.84537 U.S., the rate as of Nov. 21, 2005.

National Overview

continued

Fast-forward to year-end 2005. Real estate has become an even hotter asset class for investors than it was at the beginning of the year, judging by the decrease in capitalization rates and the increase in the dollar volume of transactions in 2005. Low interest rates, a flood of capital and improving leasing markets all played a role. Ten-year Treasuries, which determine the interest rates of many mortgages, are hovering around 4½ percent, not far above where they began the year and well below the consensus forecast of 5 percent published at the beginning of the year in *Blue Chip Economic Indicators*. The dollar volume of transactions for office, industrial, retail and multi housing properties with a minimum value of \$5 million totaled \$188 billion year to date through the third quarter, 52 percent ahead of the same period in 2004.

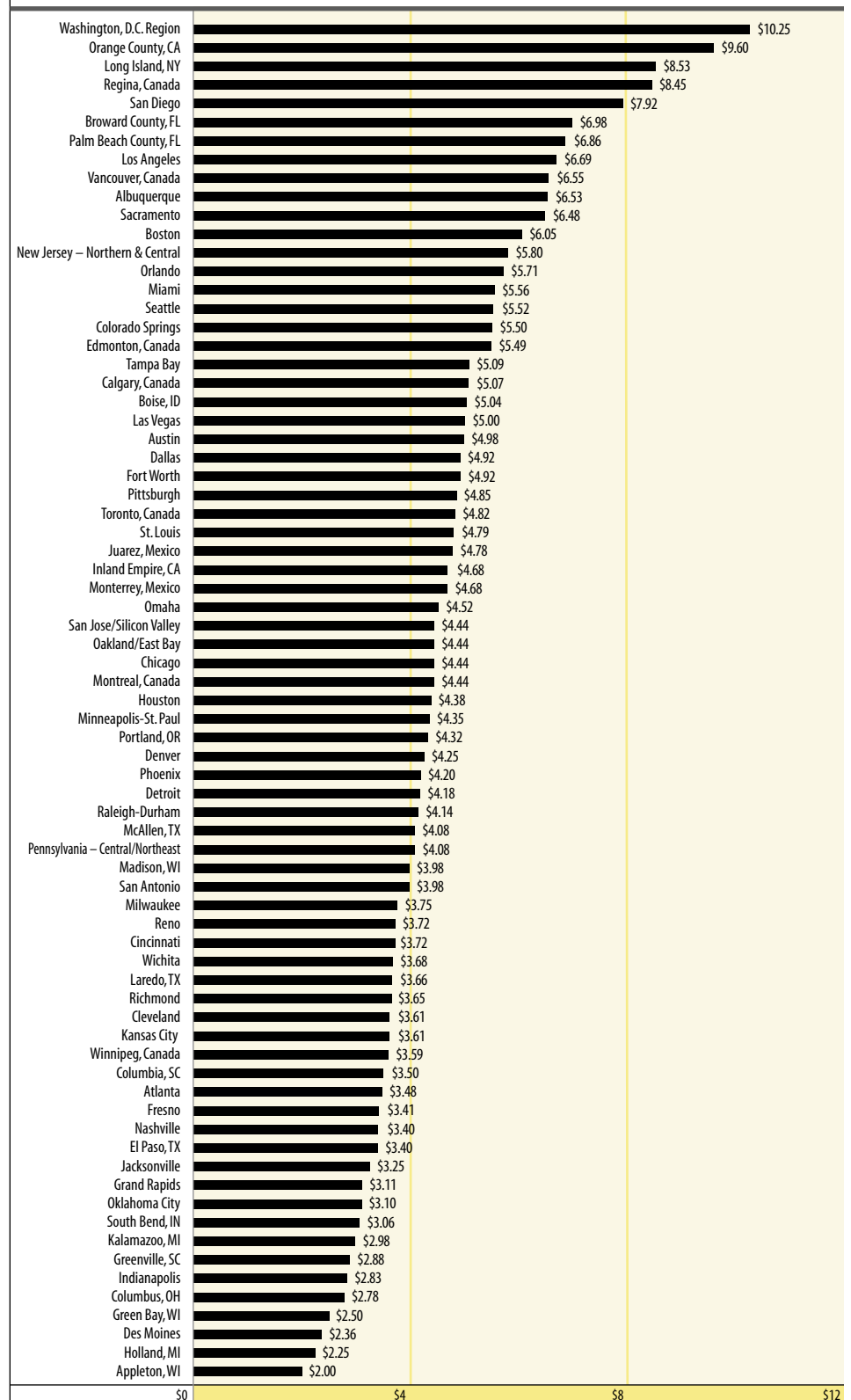
2006: Time for a Mid-Course Correction

Commercial real estate should fare well in the coming year as measured by demand from both tenants and investors. Conditions will be similar to 2005 as the nation's economy continues to expand, but there will be some mid-course adjustments necessary for tenants, landlords, buyers and sellers.

Office

The office market will benefit from the 2 million net new jobs expected in 2006, about one-quarter of which will be located in office buildings. New supply totaling 25 million square feet will fall far short of net absorption totaling 80 million square feet, which will reduce the vacancy rate to 12.8 percent by year-end 2006, down from 14.5 percent at year-end 2005. Expect the average asking rental rate to rise 5 percent for CBD

Metro Warehouse/Distribution Rental Rates
Year-End 2005



Rental rate data refer to average asking rental rates for warehouse/distribution space that is available on the market at the end of 2005. Rates are per square foot, quoted on an annual, triple net basis. Canadian data are courtesy of Avison Young. Canadian rental rates are in U.S. dollars using the exchange rate of \$1 Canadian = \$0.84537 U.S., the rate as of Nov. 21, 2005.

properties and 6 percent for suburban properties. An increasing number of markets will move from the recovery cycle to the expansion cycle, the stage where rental rates are high enough to justify new construction.

Greatest risk: A premature recession causes tenants to repeat the massive downsizing and space givebacks that characterized the 2001 recession and its aftermath, sending vacancy rates soaring and rental rates tumbling.

Industrial

The manufacturing sector employs about the same number of workers today as it did in 1950, yet demand for industrial space, which is tied to the manufacturing sector, has never been stronger. The exporting of manufacturing jobs overseas has boosted demand for warehouse/distribution facilities to handle the logistics of moving consumer and business capital goods to their final destinations in the United States. The coming year will bring another increase in the volume of global trade, while companies will continue to streamline their supply chains, pushing construction activity to a new high. Robust demand will trim the vacancy rate to 7.2 percent at year-end 2006 versus 7.9 percent at year-end 2005. Asking rental rates for both warehouse/distribution and R&D/flex space are expected to post a 5 percent increase.

Greatest risk: Developers and lenders become too aggressive and overbuild the market, keeping rental rates flat.

Retail

The retail leasing market may have moved beyond its sweet spot as high energy costs, rising interest rates, a softer housing market and high levels of household debt restrain consumer spending. On the other hand, the

economy is creating jobs, energy prices are volatile, and consumers are nothing if not resilient. Demand and supply are expected to stay in equilibrium in 2006, with vacancy stable and rental rates moderately higher.

Greatest risk: The housing market stalls.

Multi Housing

With signs that the housing market is decelerating, the multi housing rental market should see stronger fundamentals in 2006 – except for the segment that depends on sales to condominium converters. Absorption should increase moderately, while new construction should keep the vacancy rate steady. Landlords can look forward to a moderate rise in rental rates.

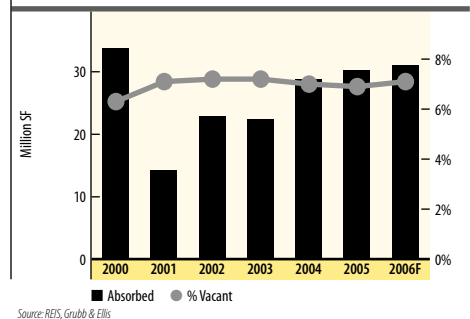
Greatest risk: The signs of deceleration in the housing market prove to be ephemeral, and would-be renters continue to choose homeownership.

Investment

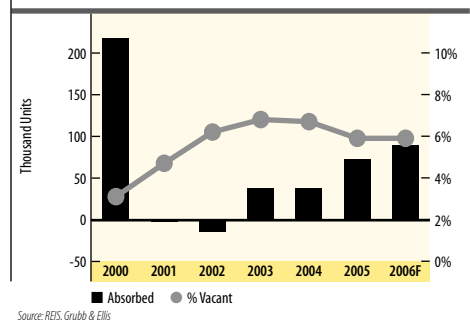
The investment market will swim upstream against moderately higher interest rates, restraining transaction volume below the record set in 2005. Capitalization rates may rise slightly as buyers begin to push back against aggressive seller expectations. But the massive backlog of capital seeking commercial real estate assets will put a floor under transaction activity and a ceiling on cap rates, especially if 10-year Treasuries stay below 5¼ percent, as expected. On the leasing side, payroll job growth exceeding 2 million will sustain tenant demand, while rising prices for construction materials (up to 10 percent in 2006) will hold many development projects at the starting gate.

Greatest risk: A spike in interest rates.

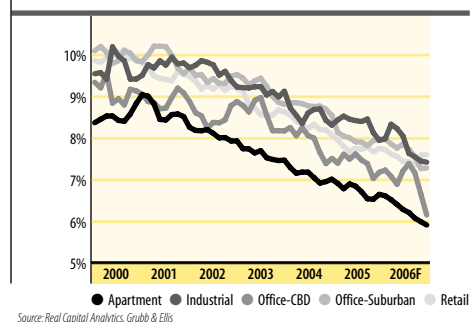
U.S. Retail Vacancy and Absorption



U.S. Apartment Vacancy and Absorption



Capitalization Rates

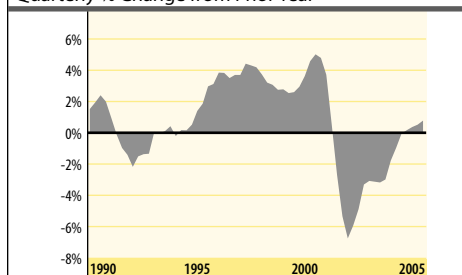


Northern California/Reno

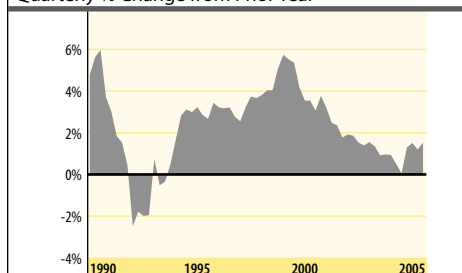
Overview

From recovery to expansion, real estate markets throughout the region fired up a historic year in 2005 that will undoubtedly lead to solid performance in the year ahead, despite potential slowing due to rising interest rates.

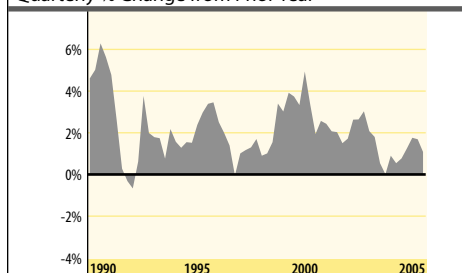
San Francisco Bay Area Job Growth
Quarterly % Change from Prior Year



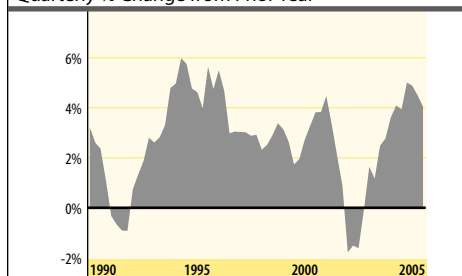
Sacramento Metro Area Job Growth
Quarterly % Change from Prior Year



Fresno Metro Area Job Growth
Quarterly % Change from Prior Year



Reno Metro Area Job Growth
Quarterly % Change from Prior Year



Real estate fervor has swept the market off its feet and elevated its status to one of the most preferred investment classes. Driven by overflowing capital and solidly improving market fundamentals, nearly every market and property type produced a banner year in Northern California and Reno. Coastal areas were fueled more by buying rather than building, with the exception of the hot residential sector that experienced both. Inland areas saw home buying, building and everything that goes along with it leading to a strong rally. The most favored product types were office and apartment on the coast and retail, apartment and industrial inland.

Leasing market conditions showed strength in nearly every market and property type, with office and industrial posting the greatest improvement. San Francisco and San Mateo were the most improved office markets. Even those that experienced an uptick in office vacancies posted positive net absorption, indicating strong underlying demand. Reno and Sacramento were the most improved industrial markets, driven by their favored status as warehouse/distribution centers. Fresno, Reno and Sacramento were the hottest residential markets, characterized by booming new home building that also propelled retail and industrial development. Retail markets were simply strong across the board.

Investment sales experienced a dollar volume surge like no other. Once again, the Bay Area produced the most pronounced increase based on its attractiveness to a wide

spectrum of investors and the swiftly recuperating commercial leasing market. Its sales volume in 2005 soared by more than 90 percent over prior year levels to \$18 billion. The hottest property types in Sacramento, Fresno and Reno were retail, land for residential development, industrial and apartment. All markets were characterized by falling cap rates and rising prices.

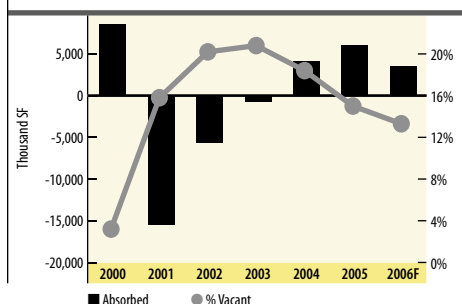
How the potential for higher interest rates plays out on property markets in the year ahead is a question many are pondering. The residential market is probably the most vulnerable to rising interest rates considering its meteoric rise. Should housing development and sales slow significantly, it will undoubtedly impact those markets most dependent on it being a catalyst for other property types. Another factor affecting property markets and new development is sharply higher construction costs due to materials shortages. This could combine with interest rate hikes to curtail real estate driven expansion, unless prices rise at an equal or faster pace.

Long term, the path of growth in California is moving into the land-abundant Central Valley. It's on the grow and now on more radar screens than ever. An affordable quality of life is driving this inland expansion that will continue to benefit cities such as Stockton, Tracy, Lodi, Fresno, Tulare, Merced and Madera County. The state's breadbasket is rapidly changing as greenfields convert into developed property.

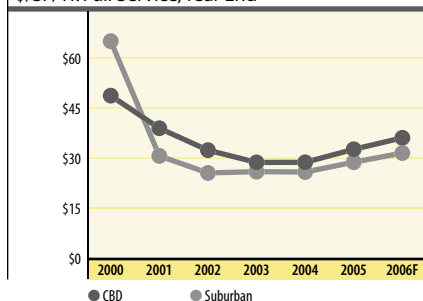
San Francisco Bay Area Office

The vigorous pace of recovery beat growth expectations and led to rising rents and occupancies, especially in certain high demand markets and space categories.

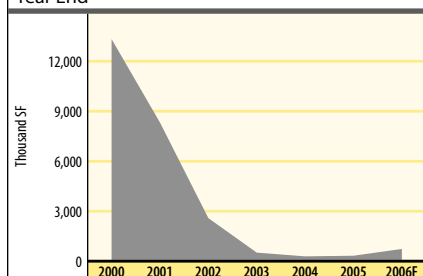
Vacancy and Absorption



Class A Asking Rental Rates
\$/SF/Yr. Full Service, Year End



SF Under Construction
Year End



Market Overview

Positive market fundamentals were anticipated for 2005, but the pace of improvement in office market conditions came as somewhat of a surprise. The expectation was that job growth would need to make a convincing return to sustain the levels of office space demand experienced in 2004. It did not; however, 6 million square feet of space was absorbed by new and existing tenants. Driving this progress was the presence of attractive lease terms and a substantial amount of activity from renewals and tenant repositioning.

The result was a vacancy rate decline of nearly 3.5 percentage points for the year. San Francisco and San Mateo are leading the recovery and experiencing the strongest growth, yet these markets have much more ground to cover than Oakland/East Bay and San Jose/Silicon Valley. Overall, the market edged toward a more balanced and healthy state, leveling the playing field between landlords and tenants. As a result, tenant-favored market conditions have or are waning in certain space categories and submarkets.

Perhaps the most surprising and welcome news of 2005 was the dramatic increase in rents, nearly 14 percent and 10 percent for Class A and Class B space, respectively. This increase was driven by pockets of strength in the market, including the diminishing supply of high quality space, which drove up overall rents. Further positive news includes two new construction starts, one speculative, scheduled for San Francisco in

2006, signifying landlord confidence in substantial market improvements to come over the next few years. However, demand has not reached this threshold in other parts of the Bay Area, as no major new office developments are currently planned to break ground.

Despite the significant progress made over the past two years, recent merger and acquisition activity has the potential to moderate improvement in 2006. Oracle's appetite for companies developing new technologies has been voracious of late. Among its prey, PeopleSoft and Siebel Systems, located in the East Bay and San Mateo, respectively, will bring a substantial amount of vacant space to market; the figure is projected at over 1 million square feet. Furthermore, lack of substantial job growth still plagues the Bay Area.

Office market indicators such as absorption, vacancy and rents in the coming year should experience further improvement. However, there may be a rotation in the pace of recovery, a little slower in leading markets and faster in lagging ones. Expect supply in the most desirable markets and properties to further tighten, leading to a renewed interest in once dormant commodity space. As a result, rent growth should be anticipated and occupancies should continue their ascent. The Bay Area remains, by a wide margin, the nation's leader in intellectual property and venture capital spending. Combined, these assets generate emerging technologies and spawn new companies and growth that will result in ongoing space absorption.

San Francisco Bay Area

Office

continued

San Francisco

The pace of market improvement surged beyond expectations in 2005. Strong tenant activity that resulted in positive growth in occupancies and competition for a tightening supply of space in certain categories lead to approximately 550 deal completions in 2005 totaling nearly 6.5 million square feet. Vacancy continued its descent, falling nearly 7.6 percentage points from its mid-2003 peak of 24.1 percent.

Perhaps the most surprising and welcome news of 2005 was the dramatic increase in rents, nearly 19 percent. Betting on further rental rate increases, construction on two major projects is scheduled to commence in 2006, one without an anchor tenant. Look for rents to continue their upward momentum, albeit at a lesser pace, and vacancies to further decline. The view space category will once again outpace the overall market.

San Jose/Silicon Valley

Market conditions have certainly turned the corner from one year ago and have begun to slowly heal. Net absorption increased by over 30 percent in 2005

from the previous year. Vacancies dropped by more than 5 percentage points, ending the year at just over 12 percent. Submarkets such as Palo Alto, Santa Clara and Sunnyvale will observe their rents inching up in the year ahead as demand for premium Class A space and refurbished Class B space grows. Landlord concessions and turnkey improvements will begin to wane with the anticipated market improvement. Despite the steady decline in the unemployment rate, which stands at just over 5 percent, job creation still remains sluggish. Market momentum will continue into 2006 as the market treads along the path of recovery.

San Mateo

Surpassing projections for 2005, the market realized positive net absorption, vibrant tenant activity, lower vacancy and rising rental rates.

Robust leasing activity in the past two years has paved the way for a strong 2006. Rental rates are expected to move higher, as the flight-to-quality will amplify in the Central and Northern Counties. Highly improved small spaces were a pocket of strength during the past couple of years. On the

other end of the spectrum, the supply for large blocks of space is tightening as well. However, Oracle's aggressive acquisition of its competitors has the potential to stagnate improvement if it results in a substantial amount of space returned to the market.

Oakland/East Bay

Performance gains throughout 2005 characterized the East Bay market as it posted over 1 million square feet of positive net absorption. Leasing activity translated into consistent vacancy declines, dropping the vacancy rate nearly two percentage points. Sublease space continued its three-year descent shedding approximately 350,000 square feet. Clearly the pace of recovery is picking up.

Expect more of the same in 2006 as the market heads toward a more stable and healthy state. The playing field will be more balanced between tenants and landlords. Class A space will become increasingly limited and asking rents will continue their ascent in key submarkets such as the CBD of Walnut Creek and Oakland.

Market at a Glance 2005 Year End

	San Francisco	San Jose/ Silicon Valley	San Mateo	Oakland/East Bay	Totals
Rentable*	62,857	59,118	33,843	56,683	212,502
Vacant*	10,759	7,325	6,766	7,083	31,933
Vacancy Rate	17.1%	12.3%	19.9%	12.5%	15.0%
Absorbed*	1,349	2,163	1,380	1,132	6,024
Under Construction*	295	0	0	37	332
Rental Rate**					
Class A	\$34.07	\$31.23	\$30.78	\$27.08	\$30.89
Class B	\$24.05	\$24.63	\$27.19	\$20.44	\$23.75

* Square feet in thousands; excludes owner-occupied, medical, government.

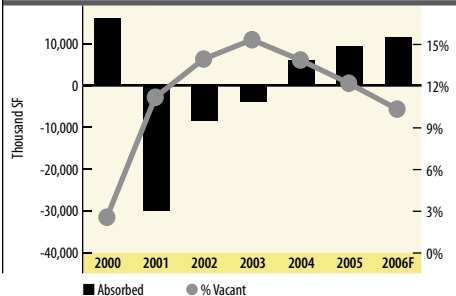
** Weighted average asking rent/SF/year Full Service.

San Francisco Bay Area

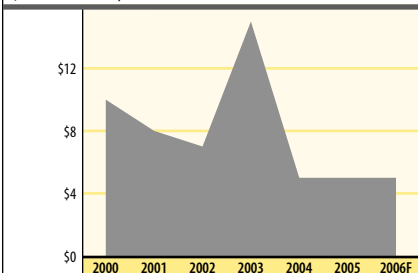
Industrial

Health and stability are making a return as confidence builds throughout the region. But, the pace of industrial space generating job growth has been somewhat unsettling.

Vacancy and Absorption
All Product Types – Year End

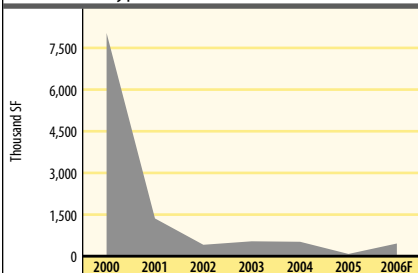


Asking Rental Rates*
\$/SF/Yr. NNN, Year End



* Warehouse/distribution space

SF Under Construction
All Product Types – Year End



Market Overview

A strong start and sustained momentum in several key markets throughout 2005 resulted in the second consecutive year of positive performance. San Jose/Silicon Valley experienced drops in vacancy across the Santa Clara Valley, especially in crucial R&D markets such as Palo Alto, Mountain View, North San Jose, Santa Clara and Sunnyvale. The San Francisco Peninsula also fared well with declining vacancy from leasing and owner-user purchase activity. The Oakland/East Bay market remains the healthiest in the region, but it did gain slightly in vacancy. The positive activity, which included large quantities of owner-user space, caused rental rates to fluctuate quarter over quarter. However, rents managed to eke out small increases in the majority of submarkets.

Although the Bay Area market continues to improve, the elusive piece of the puzzle has yet to show a convincing return. Job growth Bay Area wide is needed to sustain a healthy economy and industrial property market. The San Francisco Peninsula fared the best for overall job growth due to its grounding in the biotech and medical engineering industries. New companies will continue to absorb space in this region for 2006. The San Jose/Silicon Valley and Oakland/East Bay unemployment rates continued to decline slowly, but require significant job additions to generate enough activity to perk up rents and bolster new development. The coming year will see tenants swapping their previous accommodations for higher-quality space. However, the options will tighten due to the dimin-

ishing supply of quality space and lack of new construction. Increased demand and receding inventory will fuel rental rate hikes in certain high demand areas, but many other areas are expected to remain stable.

The Bay Area economy can expect growth from the biotech sector as it makes its way down the San Francisco Peninsula to Santa Clara County and continues to mature in the Alameda/Berkeley/Emeryville area. Stem-cell research funding, which was approved by California voters in November 2004, should finally gear up and begin to impact the economy and real estate market during the next several years. However, one significant challenge, offshore competition from India and Asia, will continue to hamper efforts to ignite economic development and could further erode the general industrial sector. Hopefully, new requirements from companies entering their second and third phase growth cycles will help offset any losses and keep vacancy moving downward. This will satisfy landlords who have been offering steadfast concessions since the downturn of five years ago.

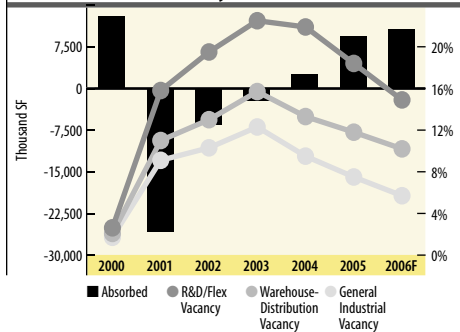
Overall, steady leasing and strong sales activity is expected to sustain the recovery into the year ahead. Vacancy rates in the general industrial and warehouse/distribution markets have arrived and should remain at equilibrium. However, R&D will have to absorb over 15 million square feet to catch up with the rest of the industrial market. Going forward, the Bay Area can expect a repeat performance of slow and steady improvement.

San Francisco Bay Area

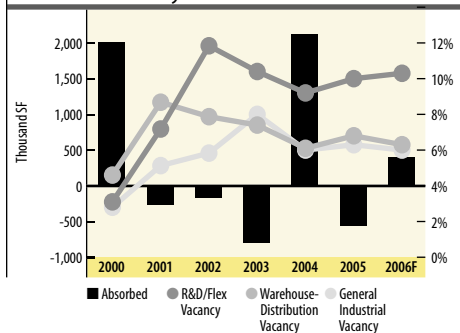
Industrial

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**Vacancy and Absorption
San Jose/Silicon Valley**



**Vacancy and Absorption
Oakland/East Bay**



San Jose/Silicon Valley

Overall market conditions improved throughout 2005, posting healthy increases in net absorption for all three product types. Year-end vacancy in the Valley decreased this year from 18 percent to just over 15 percent. Sublease space further evaporated this year as leases expired, revealing a consistent downward trend. It's now at its lowest point in four years with a sublease rate of just over 3 percent. These improvements did allow for some limited pressure on direct rents. Although conditions continue to push in the direction of recovery, new construction remained stagnant over the course of the year leaving developers patiently waiting once again as they did in 2004.

The market should turn more favorable for landlords next year as vacancy improves. With rental rate declines a thing of the past, tenants are likely to look for value in their current flight to quality, but attractive options will become less prevalent. Thus, tenants should move quickly to take advantage of remaining landlord concessions and attractive deals. These concessions are once again expected to diminish as long as favorable economic conditions hold.

In 2006, investor and owner-user sales are expected to remain at high levels; however, a deceleration may occur in response to rising interest rates. The next big thing in the Valley could hinge on the success of emerging industries within biotech and nanotechnology, but they are still in an incubation period and trying to grow strong roots in the economy.

Oakland/East Bay

Leasing activity stumbled in 2005 nudging vacancy higher by 50 basis points to 7 percent and translating into overall negative net absorption for the year. Despite the increase in vacancy, the East Bay remains one of the healthiest industrial markets in the entire Bay Area, as demonstrated by the increase in overall asking rents across all product types. An additional sign of strength is the handful of speculative developments that have been built this year such as the Regatta Business Center in Richmond, consisting of nine warehouse buildings for sale and totaling nearly 160,000 square feet. While the leasing market has not been vigorous this year, continued low interest rates steadily fueled the investment market in 2005.

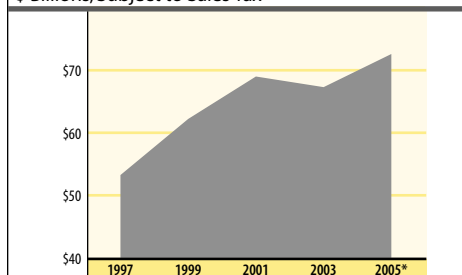
The market should tighten in 2006 as potential industrial sites are being snapped up for residential and retail development. Additionally, current product is diminishing as industrial buildings are being redeveloped into residential or mixed-use products. These factors coupled with limited land and high demand will translate into positive market performance for the Oakland/East Bay. Asking rental rates will continue their ascent in 2006 as owners become more aggressive with rental rates. In 2006, the R&D/flex market will continue to face challenges. Expect sale activity to remain solid in 2006 with owner-user sales continuing to be a driving force.

San Francisco Bay Area

Retail

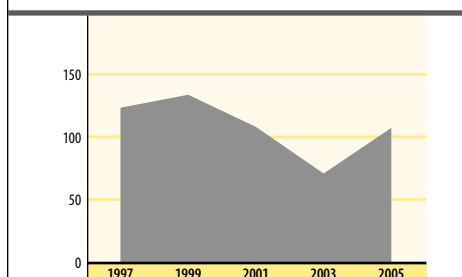
Market strength should be retained in 2006, but rate of growth may be slower than in previous years.

San Francisco Bay Area Retail Store Sales
\$ Billions, Subject to Sales Tax



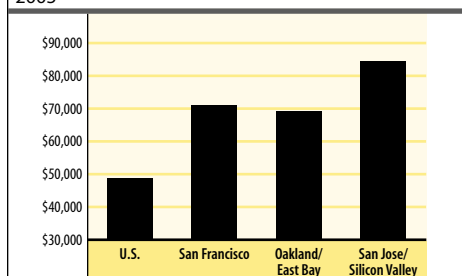
*Estimate
Source: California Board of Equalization

Pacific Region Consumer Confidence Index



Source: The Conference Board

San Francisco Bay Area Median Household Income 2005



Retail continues to shine bright in the Bay Area. Demand from consumers in 2005 has translated into the third consecutive year of retail sales growth, surpassing the retail spending peak of 2000. Consumer confidence in the Pacific Region grew again this year as well, leading to an almost 7 percent increase. Low interest rates and a booming housing market fueled both growth and confidence in 2005. Expect retail to remain in high demand throughout 2006, but the rate of growth may not be as strong as the past few years if interest rates continue to climb and the housing market cools.

In 2006, look for mixed-use development and entertainment lifestyle centers to continue to be "hot" products. High land costs and a desire to draw upon a large, affluent customer base are driving these two trends. Additionally, community centers anchored by home improvement tenants, like Home Depot or Lowe's, will be highly sought after product. Housing is king and the "commuter" residential markets in the outlying areas of San Jose, the Central Valley and along Highway 4 continue to be growth regions in the Bay Area. These newer suburban areas that have experienced massive residential growth have been very attractive to developers and tenants. Over the next few years, saturation will become a question in these communities with approximately 2 million square feet in the pipeline.

The broader retail market in the Bay Area will remain in the expansion phase of the real estate cycle well into 2006. Supply of retail space has not yet exceeded the demand of retailers. To help answer that demand IKEA is slated to open a 270,000-square-foot store in Dublin by the fall of 2006. Transcan Development is planning a 1 million-square-foot open-air regional retail center near the intersection of Highway 4 and Highway 160 that is scheduled to open in 2007 and the 360,000-square-foot San Jose Market Center is expected to open in early 2006. Momentum on the leasing side has slowed down; space now remains on the market longer than in previous years. Despite that trend, retail space is still being leased at premium rents and is poised to slowly rise in 2006. Landlords continue to have the upper hand in lease negotiations. Concessions are not frequent, although national credit tenants are able to achieve generous improvement allowances and free rent periods.

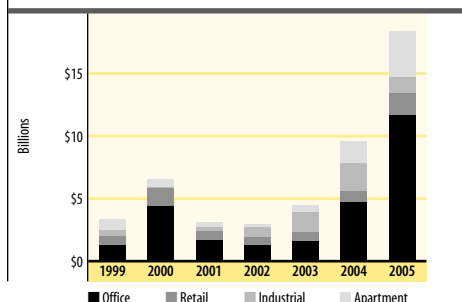
The Bay Area with its large population and high median household income levels has kept the retail market strong. This strength has kept the retail investment market sizzling throughout 2005. Investors from all over the world are aggressively pursuing opportunities in the Bay Area. Look for the retail investment market to test new levels in 2006.

San Francisco Bay Area

Investment

Strong capital currents have propelled real estate to new heights. Fundamentals are on the rise and the year ahead looks favorable, but hinges on the chance of substantially higher interest rates.

San Francisco Bay Area Total Property Sales



Source: Real Capital Analytics, Grubb & Ellis

Market Overview

A rip tide of capital flowing into real estate over the past year was unimpeded by extremely competitive buying conditions. Potential buyers seeking property in the Bay Area outnumber sellers by a wide margin and their penchant to acquire has bid up prices and pushed down cap rates to levels some are starting to question looking toward the year ahead. Leasing market fundamentals improved robustly and seem sure to move ahead once again in 2006. However, many are asking if aggressive future projections of rental rate and occupancy growth being incorporated into pricing by sellers and underwritten by buyers will play out as expected. Actual performance in 2005 far exceeded anyone's predictions one year ago and the Bay Area fell harder following the tech wreck, suggesting more pronounced upside improvement. Thus, growth should remain strong next year, but it's likely to moderate. The degree of moderation will depend on what happens with a variety of factors such as job creation, consumer spending, housing demand and interest rates.

Investment sales volume in 2005 soared to unprecedented heights, led by office and apartment transactions. More than \$18 billion traded hands during the past year, smashing 2004's record \$9.5 billion by nearly 90 percent. The office product type lead the pack in 2005 and accounted for 64 percent of total sales volume. Remarkably, office sales this year alone exceeded the total volume of all property types in 2004. Apartments came in a distant second with 20 percent even though its sales volume doubled. The fundamentally strong retail property type suffered a surprising 42 percent decline in sales volume, resulting from a severe supply shortage. By major metropolitan area, the breakdown of capital flows last year revealed an intriguing pattern. San Jose/Silicon Valley and San Francisco experienced a 155 and 90 percent surge in total sales volume over 2004, while Oakland/East Bay increased by only 50 percent. Investors appear to be saying that San Francisco and Silicon Valley represent markets in recovery with significant upside potential and Oakland/East Bay one of relative stability.

The year ahead looks to be another favorable one for commercial real estate investment. Strong deal flow during the first half of the year is almost certain. But, second half performance is less clear and how that plays out will hinge on the growth factors discussed earlier. It appears safe to say that the cyclical peak in investment activity will soon be upon us and that 2006 will likely be a year of transition characterized by still low but rising cap rates and decreasing sales

Key Investment Transactions San Francisco-San Mateo, 2005

Buyer	Property Type	Property Name	City	Size	Sales Price (millions)
Hudson Waterfront Associates	Office	555 California Street	San Francisco	1,800,000 SF	\$1,050.0
Stellar Management of Manhattan	Apartment	Villas at Park Merced	San Francisco	3,483 Units	\$700.0
Wells REIT	Office	1900-2000 University Avenue	East Palo Alto	454,197 SF	\$293.0
American Financial Realty Trust	Office	777 San Marin Drive	Novato	700,000 SF	\$283.5
American Assets	Office	1 Market (The Landmark)	San Francisco	437,000 SF	\$220.0
Beacon Capital Partners	Office	1 Sansome Street	San Francisco	550,100 SF	\$214.6
RREEF	Office	185 Berry Street	San Francisco	717,000 SF	\$210.0
Prudential RE Investors/Harvest Properties	Office	Westport Office Park	Redwood Shores	967,680 SF	\$200.0
SEB Immobilien	Office	225 Bush Street	San Francisco	575,601 SF	\$178.5

velocity. Should the available supply of property for sale grow, buyers will have more opportunity to scale back aggressively advancing valuation assumptions that may be getting too far ahead actual fundamentals.

Investment Advice For 2006

San Francisco

It's a seller's market and achievable pricing continues to surprise. Class A CBD office with strong rent rolls are the most sought after. If appreciation is your play, then pricing near or above replacement cost should entice you to become a seller before the fervor cools. Value-added is certainly the place to be in a rising market. Class B office owners with substantial vacancy should stop leasing and start selling – there's value to be added by new players. Apartments are pricey, but high home prices, increasing job growth, improving fundamentals and inventory reductions from condominium conversions should benefit performance in the years ahead. Thus, apartments should be bought or held for stable income growth. Retail is difficult to source and could carry the most risk if consumers pull back due to inflation and higher housing debt service.

San Jose/Silicon Valley

The most revived investment market in the region should thrive once again in 2006. Even if interest and cap rates rise, Class A office buildings with strong rent rolls and high occupancies will continue to be craved by stable income investors. Value-added opportunities with lease-up risk should

persist in being brought to market.

But, buyers will need to be well-schooled on specific submarket and product type dynamics to determine value. Residential development should remain strong and owners of land or redevelopment plays should put property on the market. In the year ahead, sellers may begin to accept higher cap rates, but will also expect more aggressive occupancy and rental rate growth assumptions.

San Mateo

Investors are broadening their definition of core markets to encompass adjoining suburbs. Thus, San Francisco's burgeoning supply of investors is poised to further benefit the rest of the Peninsula. Quality office and R&D product substantially below replacement cost could pay off for patient investors once larger users return to the market. Biotechnology funding by the State of California and venture capitalists will certainly benefit existing life sciences companies and any properties able to accommodate their growth. Thus, industrial

land or obsolete buildings should be acquired or held for development. Retail has traditionally performed well and it's still a buy despite the possibility of a more frugal consumer.

Oakland/East Bay

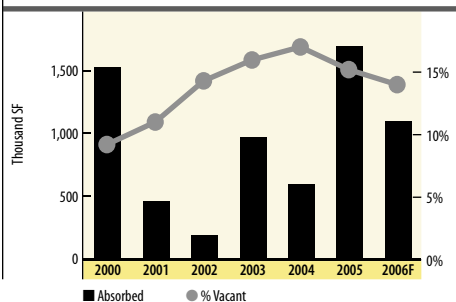
Retail remained "hot" throughout 2005 and investors should continue to snap up opportunities in the year ahead. But, keep an eye on product quality; not all coupon clipper deals priced over replacement cost make sense. Well-leased multi-tenant industrial and office properties are buys to stable income investors, while R&D/flex properties in submarkets experiencing vacancy increases represent a buy or sell opportunity. Attractive SBA lending will keep owner-user demand strong, but increasing interest rates may dampen investment activity for small investors. Land is scarce and sellers will continue to achieve premium pricing. Multifamily product is expected to sizzle in 2006 as its fundamentals improve. Sellers should cash in now to benefit from demand outstripping supply into 2006.

Key Investment Transactions
 San Jose/Silicon Valley-Oakland/East Bay, 2005

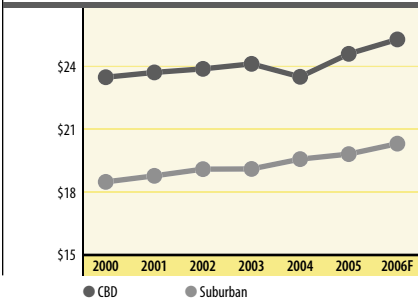
Buyer	Property Type	Property Name	City	Size	Sales Price (millions)
The Swig Company	Office	300 Lakeside Drive	Oakland	859,000 SF	\$200.0
Slough Estates	Office	201-2091 Stierlin Court	Mountain View	726,508 SF	\$199.5
RREEF	Office	4440 Rosewood Drive	Pleasanton	1,044,679 SF	\$197.3
BlackRock Realty (SSR)	Retail	5669 Bay Street	Emeryville	400,000 SF	\$185.0
Tishman Speyer Properties	Office	1184 & 1194 Mathilda Avenue	Sunnyvale	425,000 SF	\$174.0
Kimco Realty	Retail	39261 Fremont Hub	Fremont	482,000 SF	\$123.2
RREEF	Office	950-1020 W Maude Avenue	Sunnyvale	288,000 SF	\$115.0
GMH Associates/Fidelity Investments	Apartment	3400 Richmond Parkway	Richmond	1,008 Units	\$114.5
MB Hollis Investors/Boyd & Co.	R&D	Lincoln Technology Center	San Jose	249,832 SF	\$95.0

It took three years to shake the doldrums and produce significant market gains. Look for more positive performance in 2006 along with exciting new development.

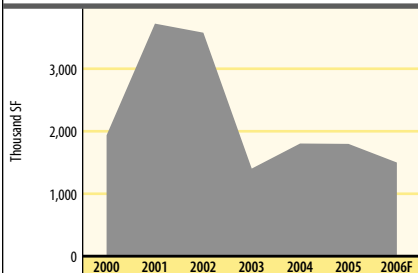
Vacancy and Absorption



Class A Asking Rental Rates
\$/SF/Yr. Full Service, Year End



SF Under Construction
Year End



Several trends of the past few years are poised to change in 2006. Office condominiums, the hot ticket in 2004 and 2005, will experience a development slowdown in 2006 as their relevance is so inextricably tied to interest rates that threaten to increase early in the year. Those developers that foresaw the phenomenon and positioned themselves to ride the wave achieved substantial success with this product type and will be able to redirect undeveloped land.

Small owner-user buildings under 5,000 square feet will see the same decreased development rate in 2006 as office condominiums. Again, the reality behind success of this product type lies in low interest rates translating into favorable economics.

Even a small interest rate increase could produce an increased cost of ownership that would make leasing a more attractive alternative. Additionally, the cost of building materials in the wake of the 2005 hurricane season and rising local land prices will both further exacerbate the economics of development and hence ownership.

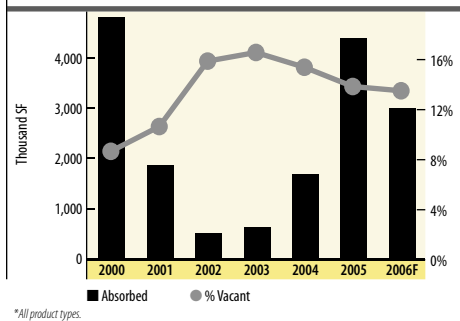
The Central Business District skyline is about to grow, but when to expect the major changes on the drawing board to rise is still unsure. Virtually all of the dozen or so major developers' downtown plans call for some amount of office space in their mixed-use projects. The most notable office development is David Taylor's 28-story, 400,000-square-foot Class A office tower at 621 Capitol Mall. The project finally broke ground in 2005 after securing tenant

commitments that cemented financing for the structure. It had earlier been thwarted by a lack of tenant commitment, but is now scheduled for completion in 2007. Another Capitol Mall project in the pipeline is George and son Angelo Tsakopoulos' 29-story, 430,000-square-foot Parthenon office tower at 500 Capitol Mall. Away from the Mall, the City has selected the developers to build mixed-use projects on the property bounded by 7th, 9th, L and K Streets, which will house a media center as well as residential, retail and office space. Of course, John Saca's twin, 52-story residential project called The Towers at Capitol Mall would dramatically alter the current skyline. Although interest in the project has been high, it remains to be seen if the non-traditional concrete condominium structures will be able to secure the required financing and be completed as planned.

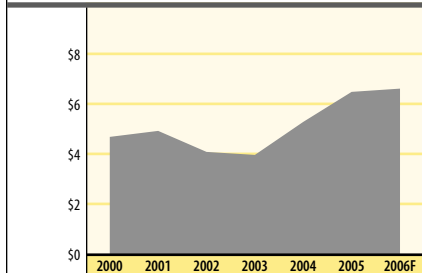
The suburban submarkets will continue to see growth in 2006, also. The fledgling Laguna/Elk Grove submarket quickly gained popularity and momentum in 2005 and now boasts one of the lowest vacancy rates in town. The Highway 50 Corridor is the location of choice for several large insurance and educational tenants currently in the market for new space. Look for this submarket to continue to rebound in 2006. Roseville will continue to lead the 12 submarkets in new construction and absorption as this powerhouse continues to be "the" address for local businesses.

Demand skyrocketed in 2005 and beat the previous three years combined. Look for more new development in the Northgate/Natomas area and increased leasing activity in 2006.

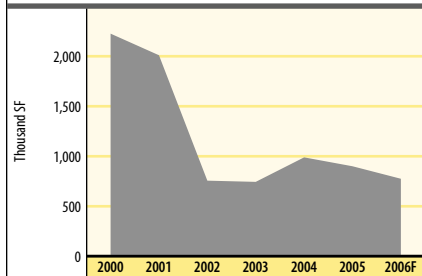
Vacancy and Absorption*



Class A Average Rental Rates*
\$/SF/Yr. NNN, Year End



SF Under Construction*
Year End



Few projects generated as much buzz in 2005 as the still fabled and rumor cloaked Metro Air Park. If transacted, it would constitute the largest land deal in Sacramento history. The site is being pursued by the Chinese government as a trade center from which to showcase Chinese goods in the United States. However, at an estimated cost of \$2 billion for the 1,800-acre site, \$900 million for the land alone, the rumor is still worth following. If completed, the Metro Air Park would replace farmland surrounding Sacramento Metro airport with approximately 8.6 million square feet of primarily industrial space. The project's first buildings could start construction in 2006.

A mix of both large and small tenant activity will drive the market's performance in 2006. While large, 100,000-square-foot tenants have diminished over the past several years, activity perked up in 2005; however, it's likely to contract again in 2006. This means that those submarkets housing the new non-traditional business parks, such as McClellan Park in north Sacramento along the Highway 80 corridor and the El Dorado Business Park in El Dorado Hills as well as several new parks in the Northgate area, stand to see the most tenant activity. The new incarnation of business park offering retail and personal services to its tenants instead of just row after row of roll-up doors will experience much greater

success in 2006. Recent tenant activity suggests that the first six months of 2006 will be typified by tenants absorbing spaces in the 40,000 to 60,000-square-foot range.

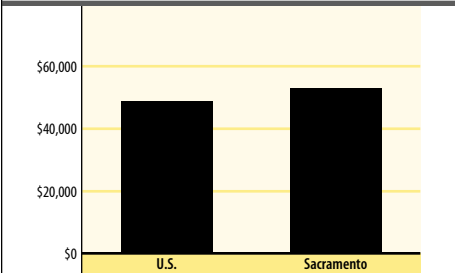
With the continued waning of industrial development and increase in activity, the market will make the turn toward landlords in 2006. Reduced concessions and increased rents are likely to parallel the anticipated market turn. A major part of the impetus for decreased development is building materials cost increases related to the 2005 hurricane season and high and still rising local land prices. As industrial developers compete with housing developers for the same land and rezoning becomes even more popular, new industrial projects will continue to be nosed out.

The long beleaguered Port of Sacramento will continue to generate controversy, but under a new management team in 2006. Fraught with development obstacles, control of the Port will pass from the City and County of Sacramento to West Sacramento and Yolo County for a yet undetermined price, pending State legislature approval. Sober decisions will need to be made and implemented very quickly if the currently bleeding Port is to be retooled into a financially sound, strategically positioned shipping location in the near future.

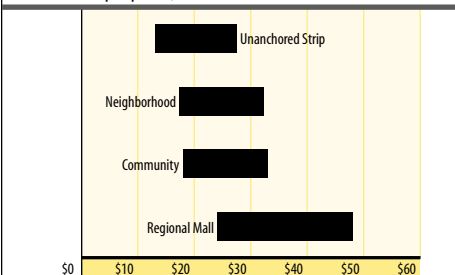
Sacramento Retail

Over 1.1 million square feet of new shopping venues were added during the year in pursuit of residential development. This trend will continue in certain suburban strongholds into 2006 and beyond.

Median Household Income
2005



Asking Rent Range by Center Type
In-Line Shop Space, \$/SF/Yr. NNN



Following the traditional urban to suburban growth model, retailers from across the nation continued their march into the market's suburban strongholds during 2005. Many more retailers seeking to secure consumers' "need" for new products and services are scheduled to follow in 2006. The North Natomas submarket in particular stands to benefit from the onslaught of planned residential growth.

The City of Lincoln is becoming a second new "it" place for retailers. Reminiscent of the Roseville of not long ago, several retailers are opening Lincoln locations, banking on its future growth as justification for seeking space in the very suburban enclave. John Saca's Lincoln Crossing Marketplace has already inked deals with several national tenants and restaurants. Lowe's is also in the planning stages for a Lincoln location. Look for the Highway 65 corridor to serve as the next major Placer County growth area.

Cities seeking to retain their own sales tax dollars will continue to court retailers away from competing communities with various site-based incentives. Yolo County demonstrated its commitment to this and expects the resulting West Sacramento IKEA to open in early 2006. While the mere mention of Wal-Mart inspires passionate discourse on the value, or lack thereof, of

both free trade and business ethics, the argument is about to become extremely personal as the mega-retailer attempts to set up housekeeping at three separate locations in the immediate market. While the West Sacramento Supercenter's opposition was not organized in time to deny Wal-Mart's entrance to that community, do not look for the same in downtown Sacramento or Elk Grove where opponents are already hatching plans. A Wal-Mart relocation is also in store for South Sacramento.

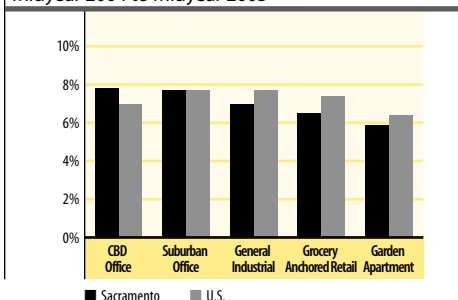
Rehab, infill, restore is the battle plan for 2006 and beyond as Sacramento County officials move toward adopting design standards for retail uses along such major thoroughfares as Watt Avenue, Fulton Avenue and Arden Way. According to county officials, 12 major county arteries have almost 2,000 vacant acres of land which could ultimately be converted to high-end retail and business uses with more pedestrian-friendly appeal. Two noteworthy remakes in the pipeline are the completion of Home Depot in Kmart's old location on Howe Avenue in the I-80/Arden/Carmichael submarket and the new owners of Florin Mall's proposed \$65 million rehab of the tired, essentially unanchored site into the new Florin Towne Centre as an open-air destination location.

Key Shopping Centers Under Construction
2005 Year End

Center Name	Center Type	Location	Major Tenants	Size (SF)	Developer
The Promenade at Natomas	Retail Power Center	Truxel Rd @ I-80	Target, Sam's Club, Barnes & Noble	663,000	Opus West Corporation
Blue Oaks Towne Center	Lifestyle Center	Blue Oaks Blvd & Highway 65	R.C. Wiley	600,000	John Aiassa and Michael Smythe
Lincoln Crossing Marketplace	Power Center	Ferrari Ranch Road and Joiner Parkway	Home Depot, Ross, TJ Maxx	368,615	John Saca
Fairway Creek	Community Center	Fairway Dr @ Five Star Blvd	Bassett Furniture, Blind Corners, Elliotts Natural Food	115,000	Citadel Equities
WinCo Foods	Freestanding Retail	Greenback Ln and Hickory Ave.	WinCo	83,362	Hickory Partners

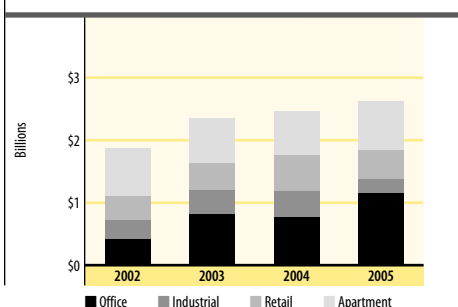
Sacramento Investment

Average Capitalization Rates
Midyear 2004 to Midyear 2005



Source: Real Capital Analytics, Grubb & Ellis

Total Property Sales



Source: Real Capital Analytics, Grubb & Ellis

Investors shrugged off less than stellar leasing fundamentals and set a record for total sales volume last year. Now that greater health and growth appears on the way, still eager and well capitalized investors will make 2006 a winning year.

Buyers scooped up available properties last year even though there was some distress in the office market. However, they are now being rewarded by increasing profit margins and decreasing vacancy rates. This return to health does suggest that both lease rates and sales prices are poised to rise. Look for relatively similar capitalization rates and an increase in the length of time properties are held between sales in 2006 as investors seek to maximize their returns.

The industrial market demonstrated a remarkable turnaround in 2005, driven both by small, under 25,000-square-foot tenants, and the return of the 100,000-square-foot-plus tenants of the early 2000s. As demand for space increases in the coming months, look for prices to continue to rise. The Northgate/Natomas, Power Inn/South Watt and Roseville/Rocklin submarkets will see the greatest interest among investors as they are slated for the greatest growth in 2006, measured both by construction levels and active tenant requirements. Cap rates on industrial investments averaged 7.4 percent last year. Performance in 2006 is expected to roughly parallel that of 2005.

Multi housing's growth mirrored that of the national economy during the year. The greatest rent increases occurred in those areas demonstrating the greatest job and income growth. The Sacramento MSA reported a 70 basis point increase in average rents for all classes of space. Sales continued at a robust pace in 2005, topping \$775 million in total volume for the four-county perimeter of El Dorado, Placer, Sacramento and Yolo Counties. This volume is greater than the previous record of \$768 million set in 2002. Cap rates averaged 6 percent and should hold steady in 2006. Rising interest rates and the markets' increasing momentum toward high-priced detached housing should serve to boost demand for apartments, apply upward pressure on rents and drive up returns. The average sales price per unit is now \$101,000 per door and rising.

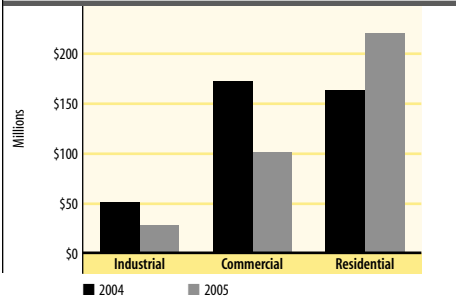
While retail investments remain a darling of the investment community, the same condition continues to mar its image, namely, not enough product. The average price of a retail investment in the four-county area has increased by 155 percent over the last four years with cap rates down an average of two percentage points in the same time span. Investors, however, do not seem daunted. Rather, a so called "six cap" mentality has arisen that seems to characterize investors' expectations with the state of inventory. Look for this trend to continue into 2006 and beyond or until interest rates cause real estate to be a less desirable avenue of investing.

Key Investment Transactions
2005

Buyer	Seller	Property Type	Property Name	Size	Sales Price (millions)
TIAA CREF	Shorenstein Company, LLC	CBD Office	US Bank Plaza	453,901 SF	\$159.0
Lowe Enterprises	David S Taylor Interests	Suburban Office	Prospect Green/One Capital Center	647,474 SF	\$103.0
HDG Mansur	Triple Net Properties	CBD Office	Renaissance Tower	301,000 SF	\$79.4
SCI Real Estate Investments	Donahue Schriber Realty Group	Retail	Park Plaza II	260,374 SF	\$71.5
Stephen J LoPresti	Gino A Barra	Apartment	The Falls at Willow Creek	390,280 SF	\$59.0
Joseph M Macchione, VP	James W Morgan, Jr	Apartment	Jefferson Commons	262,206 SF	\$51.5
Donahue Schriber Realty Group	InterCal/Petrovich Development Co.	Retail	Highland Crossing Shopping Center	126,872 SF	\$41.5
Miller Brothers Investments, LLC	Multi-Housing Services	Suburban Office	Eureka Corporate Plaza	142,862 SF	\$38.0
Steven H. Townsend	Brett Baumgarten	Industrial	Ace Hardware	478,468 SF	\$18.5

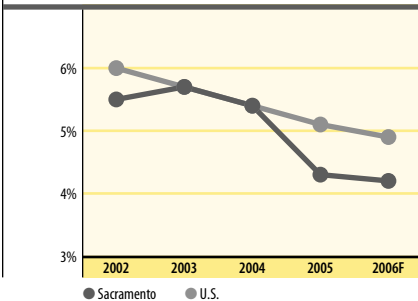
Rising interest rates and less attractive creative financing options have slowed single-family home sales dramatically. The question remains, is it a temporary phenomenon or a real adjustment.

**Land Sales Volume By Type
2004 and 2005**



Source: CoStar Comps, Grubb & Ellis

**Civilian Unemployment Rate 2002-2005
Sacramento MSA vs. Nation**



Source: State of California Employment Development Department

Sacramento's land will, without question, remain a hot commodity in 2006 and beyond. New home sales in the red-hot suburbs of Elk Grove, Folsom, North Natomas, South Placer County and West Sacramento will remain very active.

Urban infill in the older suburban communities of Carmichael and Fair Oaks will continue to be popular. In other desirable neighborhoods, the tear-down and rebuild concept is visible on virtually every street.

The following are but a few of the new housing developments in the planning stages:

- **South Placer County:** 1,942-acre Bickford Ranch in Lincoln, 1,900 single-family detached homes; the 1,300-acre Whitney Ranch in Rocklin, 1,000 single-family detached homes; the 5,200-acre Placer Vineyards at 15,000 homes. In addition, 8,000 more homes are being planned for the 3,200 acres annexed by the City of Roseville as part of the East Roseville Specific Plan.

- **Natomas:** 3,450 detached homes planned on the 575-acre Greenbriar Farms parcel; 17,500 and 11,000 homes scheduled for Lennar's 7,500-acre Sutter County parcel and 2,700-acre parcel north of the airport, respectively.
- **West Sacramento:** 3,000 condominiums and loft homes on 50 acres in the "Triangle" and 750 homes on the river-front parcel, across from Old Sacramento.
- **Davis:** Planning for the expanding University's needs, University Regents are looking into a 224-acre parcel west of Highway 113 as a site for a future student/professor/affordable housing project.

In contrast to the traditional regional housing, most new infill and master planned developments will include higher density housing that will both refuel affordability and will reflect SACOG's blueprint for the area. Transit-oriented mixed-use developments are becoming more popular within the infill submarkets and newly incorporated communities along transportation corridors. This meets both the goals of smart growth advocates and individual community mandates. Proponents of slow growth will continue to use lawsuits and injunctions to thwart developers' efforts to build. No new development is without these. However, provided demand exists, as it will here, the population estimated to rise by 15 percent over the next 10 years, these housing projects will ultimately come to fruition.

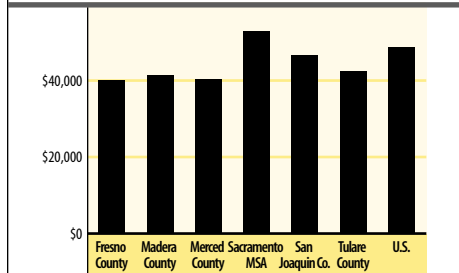
**Key Land Sales Transactions
2005**

Buyer	Seller	Use	Location	Acres	Sales Price (millions)
Lennar, Del Webb, Pulte	Westpark Associates	Residential	West Roseville	1,483	\$400
Beazer Homes	Peery-Arrillaga	Residential	Rancho Cordova	42	\$284
Suncal Corp.	M&H Realty Partners	Residential	South Sacramento	650	\$150
M&H Realty Partners	Peery-Arrillaga	Mixed-use development	South Sacramento	800	\$100
Fowler Property Acquisition	Finn Family Trust	Mixed-use development	Folsom	1,000	\$70

Central Valley Overview

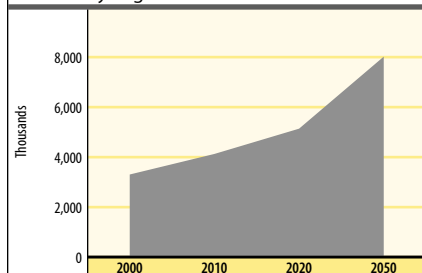
The rapid conversion of Central Valley greenfields into developed property is dramatically changing the landscape of the State's "breadbasket."

**Median Household Income
2005**



Source: Claritas

**CA Central Valley Population Growth
Six-County Region**



Source: CA Dept. of Finance

Major Central Valley Employers

Company Name	City	Industry
Fresno Unified School District	Fresno	Education
Community Medical Center	Fresno	Health Care
St. Joseph's Health Care	Stockton	Health Care
Foster Farms Inc.	Fresno	Poultry Processing
Summit Logistics (Safeway Distribution)	Tracy	Distribution
University of the Pacific	Stockton	Education
San Joaquin Defense Depot	Tracy	Government
Cigna	Visalia	Insurance
Merced Color Press	Merced	Printing

Lodi is bustling with several new industrial and residential zones. The city has strategically used its agricultural roots to attract several agricultural-based processing companies to the area. Wine, processed foods, nuts and several fruits are just a few of Lodi's commodities. General Mills and Pacific Coast Producers are two of the larger processing companies that rely on Lodi's products to supply their operations. City officials predict that Lodi will house over 70,000 residents in just two years.

Stockton has undergone tremendous commercial growth over the last five years. It has become a major competitor to both Sacramento and the Inland Empire in its efforts to attract companies. Overall labor and facility pricing, employee housing affordability, and a diverse and effective distribution system including the efficient Port of Stockton, all combine to make Stockton a desirable logistics site. The city currently boasts a population of over 250,000 that's growing rapidly, three professional sports teams and a new stadium.

Tracy is also expanding its tax base through recruitment of retail and industrial users. Located just 20 minutes east of the Bay Area, the City is situated very close to Sacramento, San Francisco and San Jose. Tracy's retail trade area encompasses 196,000 people from the surrounding areas of Mountain House and River Islands. Due to its proximity to three metropolitan areas and its highly educated workforce, Tracy is rapidly becoming a science and technology hub as well as a major business services provider.

Just 70 miles to the south, Merced is a city on the grow. The University of California, Merced, which opened for business in the Fall of 2005, is clearly the catalyst. Focused on research and technology, it's the first research university to be built in the 21st century. Watch for explosive growth in residential as well as commercial activity in the very near future.

Madera County is on the verge of huge development. Plans for a destination resort style casino and hotel are underway. Directly across Highway 99, a retail power center is also in the planning stages. Big-box users, such as Target, Lowe's, Kohl's and Best Buy are all possible tenants for this 800,000-square-foot project.

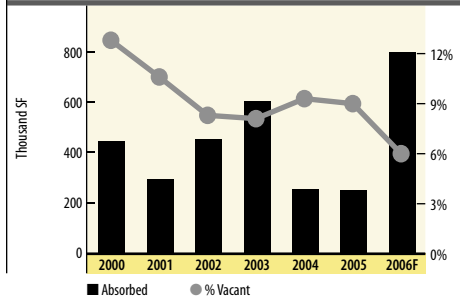
The Fresno Metropolitan area continues to expand its borders. Retail development is thriving as it attempts to keep pace with residential growth. An industrial development boom is underway with more square footage recently completed or under construction than has occurred in many years.

In the South Valley, Tulare is also in the planning stages for a retail power center. One million square feet is being designed for a mix of big-box users and a lifestyle center with retail, entertainment and restaurant components.

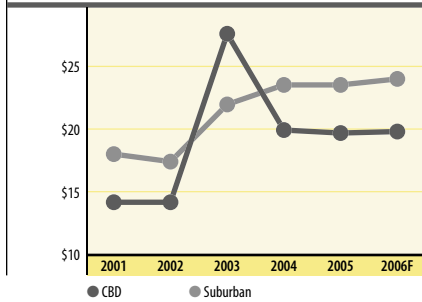
The Central Valley is now on the radar screen attracting national tenants like never before. An affordable quality of life not found in the Bay Area or south of the Grapevine has attracted an influx of metro refugees like never before. Population growth trends show no end in sight.

Newly constructed projects in the northern submarkets are dominating market activity. That trend is expected to remain unchanged through 2006.

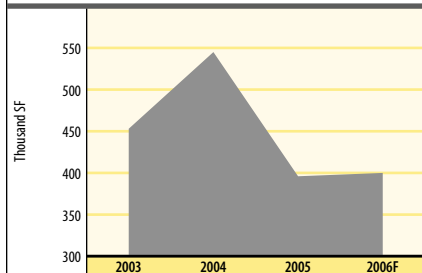
Vacancy and Absorption
Year End



Class A Asking Rental Rates
\$/SF/Yr. Full Service, Year End



SF Under Construction
Year End



As expected, market conditions remained active and stable throughout the year. Repeating the trend set in 2004, vacancy rates steadily decreased each quarter, while asking rents inched up. Although the changes weren't drastic, this trend certainly shows that Fresno's office market is happy, healthy and strong.

A recently completed three-story glass office building, located on the bluffs of the San Joaquin River, typifies what office users are now looking for in Fresno. Occupied by law firms and other professional services businesses, this space is the "cream of the crop" in Fresno's highest demand area. A second building is soon to be under construction mirroring the first building's design. These buildings are literally, perched on the northern edge of Fresno County, overlooking the San Joaquin River and Madera County farm land, which is destined to be the next step north for residential and commercial development.

Over 600,000 square feet has been added to the office inventory since the beginning of the year and another 400,000 square feet of speculative space is currently coming out of the ground. Even so, the market overall achieved over 250,000 square feet of net absorption.

Leasing activity continues at a steady pace with most of the demand and activity north of Shaw Avenue. Formerly, the "premiere" office address, Shaw Avenue has transcended into an opportunity market for tenants seeking quality space at bargain

prices. While landlords north of Shaw Avenue are asking \$2.00 per square foot, per month, full service, space on Shaw Avenue is going for \$1.45 to \$1.65.

The sale market is still strong, but investment-grade office product remains in short supply. Real Capital Analytics reported only one true office investment sale over \$5 million, Woodward Center that sold for \$35 million and consists of four buildings totaling nearly 188,000 square feet.

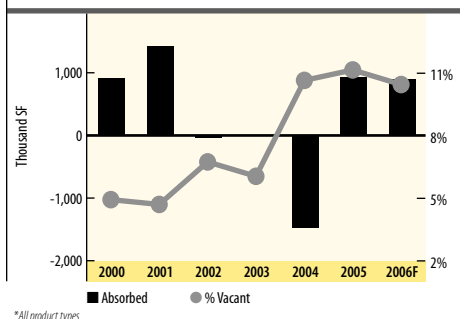
Owner-users continue to take advantage of low interest rates and purchase rather than lease. Records show approximately 50 sales of office buildings under 10,000 square feet within the city of Fresno. Of those 50, only eight were out-of-area buyers. Unless interest rates take a major jump, these conditions are not expected to change in the near future.

The Visalia market mirrors that of Fresno, with strong absorption of new office space at key locations. Highway 198 and Akers has been a strong area with office land selling for between \$13 to \$15 per square foot. New office buildings are being sold for \$175 to \$200 per square foot. Rental rates for newer office space in key locations range from \$1.75 to \$2.10 per square foot, full service, per month.

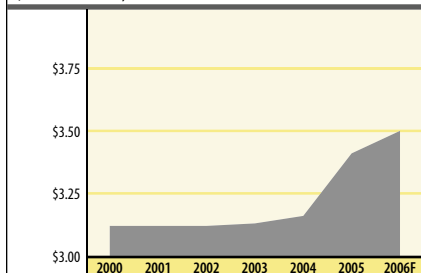
Visalia has a vibrant downtown with many restaurants and is in the process of extending the downtown corridor through the redevelopment of service commercial properties to retail and office use. Visalia has a population of 107,000 and is projected to grow by 10.78 percent by 2010.

Vacancy is down, asking rates are up and net absorption is outpacing new construction completions.

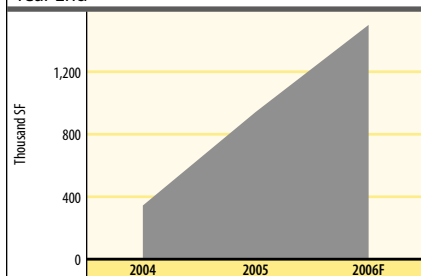
Vacancy and Absorption*



Asking Rental Rates*
\$/SF/Yr. NNN, Year End



SF Under Construction*
Year End



Rapid entry into the industrial development cycle was the major trend in 2005 and the belief that it will extend itself into 2006 and beyond. Steady growth in the industrial market, with increased leasing activity, a lower vacancy rate and continued absorption of excess industrial space was expected. The surprise was the speed and strength of the transition from the recovery to development stage that we are currently in. There was more new industrial development underway and completed in 2005 than in many years. Approximately 1 million square feet was added to Fresno's existing inventory. Additionally, plans for the North Pointe Business Park, a 230-acre-master-planned industrial development, were announced in September with a potential for another 3.7 million square feet of industrial space.

Sales of industrial properties remains very active, especially to small businesses tied to the booming construction industry. With construction costs rising significantly and the lack of supply, the prices of all types of industrial buildings have been escalating.

As predicted, leasing rates rose significantly for new buildings in 2005, due to escalating construction costs. On the horizon, we expect that rising interest rates, shrinking supply of ready-to-develop industrial land and tightening supplies of raw materials due to the recent hurricanes will result in lease rates and sales prices to continue their march upward.

The most important ingredient to the region's success has been evolving over the last few years and that ingredient is that the

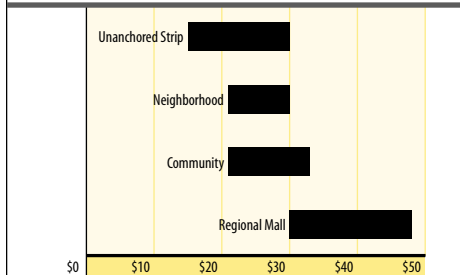
Central Valley is now on everyone's radar screen. Logistically, Fresno, and other Central Valley communities along the Highway 99 corridor, are able to offer the advantage of a centralized distribution hub and businesses are taking advantage. For instance, a company in Fresno or Visalia can efficiently reach 99 percent of California – plus portions of Arizona, Oregon, and Nevada – overnight, covering a population of more than 35 million within just a 300-mile radius. This advantage has led several out-of-area businesses to relocate or expand up and down the Valley.

While industrial land is getting harder to find in and around the Fresno area, land is still available in Visalia, Tulare and Hanford. Visalia recently landed VF Distribution's 1 million square foot apparel distribution center. Also new to Visalia is Heilind Electronics, which is consolidating its northern and southern California locations into one more centrally located for better distribution along the West Coast. Hanford and Lemoore, both located within Enterprise Zones, offer financial incentives and credits to businesses coming their way. These communities have very "business friendly" government agencies working with businesses and developers to get through the process. They also offer heavy rail service.

Unless there is a significant shift in the economy, look for continued growth throughout the Central Valley in 2006. All indications show a "full steam ahead" attitude in the heart of the Central Valley.

No slowdown is in sight for the retail market. New shopping center developments and major expansions of existing regional malls continue to attract national tenants new to the marketplace.

Asking Rent Range by Center Type
In-Line Shop Space, \$/SF/Yr. NNN



New/Expanding Retail Tenants
2005/2006

Merchant	Store Type	Location(s)
P.F. Chang	Restaurant	Fresno
Claim Jumper	Restaurant	Fresno
Cheesecake Factory	Restaurant	Fresno
Fleming's Steak House	Restaurant	Fresno
Gottschalk's	Clothing	Fresno
Lowe's	Home Improvement	Central Valley
Home Depot	Home Improvement	Central Valley
Target	Department Store	Fresno
Coach	Purses & Accessories	Fresno

Repeatedly underestimating the growth potential and robust real estate activity in the Central San Joaquin Valley has been a theme of forecasts of the past. However, the outlook for 2006 should be for no slowdown in sight.

Residential development continues to thrive. However, development land has become harder to obtain in the prime housing areas of Fresno. As a result, developers have expanded their focus to the outskirts of Fresno and smaller communities along Highway 99 with retail developers hot on their heels.

Shopping centers are popping up on multiple corners in these new residential areas. These centers are not the typical strip mall design. They are well planned, attractive multi-tenant centers with meandering walkways and water treatments. This thoughtful design and planning, coupled with soaring population growth and impressive demographics, has encouraged a flood of new retailers to the market.

2005 brought many new national tenants to Fresno and 2006 will continue to do the same. With restaurant names like Cheesecake Factory, P.F. Chang's, Claim Jumper, Fleming's Prime Steak House and lifestyle retailers like Coach, Pottery Barn and Banana Republic, Fresno is enjoying national retailers, with an

eye for sophisticated consumers, like never before. REI is also looking seriously at Fresno to open a high-end sporting goods store. Additionally, Bass Pro Shops has chosen the Central Valley to located their first store in California.

Target, Home Depot, Super Wal-Mart, Orchard Supply, Lowe's, Walgreens, and Rite Aid have all expanded or are planning to expand their presence within the Central San Joaquin Valley. CVS Pharmacy is planning on entering the market in 2006 to compete head-to-head with Walgreens and Rite Aid.

Gottschalk's department stores has expanded in the marketplace with a 100,000-square-foot "concept store" in the River Park lifestyle center. This new format will be used to expand into smaller markets with 60,000-square-foot stores focusing on upscale brands.

Power centers are in the planning stages in both Madera and Tulare. The Madera Town Center is proposed to be an 800,000-square-foot regional big-box power center with proposed tenants, such as Target, Kohl's, Lowe's, and Best Buy. The center will be located directly across Highway 99 from a proposed casino and resort hotel. Cartmill Crossing, in Tulare, is a 1 million-square-foot planned power center with similar proposed tenants. Both centers will draw shoppers from grossly underserved, growing communities.

Possible challenges for 2006 include the threat of rising interest rates and construction costs causing a slowdown in new home construction. Even so, 2006 should be another very successful year for retail.

Key Retail Centers Under Construction
2005 Year End

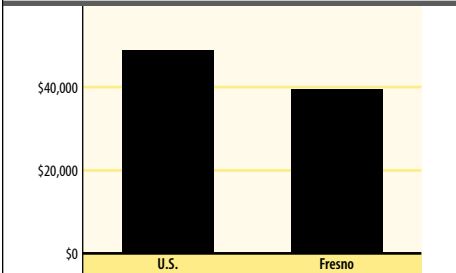
Center Name	Center Type	Location	Major Tenants	Size (SF)	Developer
Willow & Herndon SWC	Neighborhood	Fresno	Walgreens	105,500	Silver Creek
Parkway Trails	Neighborhood	Fresno	Yosemite Fitness, Kraegen Auto, Sonic	100,000	Burgess Smith & Wathen
Champlain & Shepherd	Neighborhood	Fresno	Orchard Supply Hardware	123,300	Via Montana, LLC
Shields & Brawley Marketplace	Neighborhood	Fresno	NA	97,700	Transtar Holdings LLC
Ashian Village	Strip	Fresno	NA	26,600	Winston Capital Group

Fresno

Investment

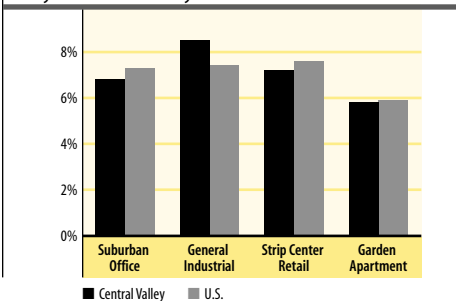
Central California experienced another strong year of investment activity. Multi housing, once again led the way in total sales activity and volume.

Median Household Income
2005



Source: Claritas

Average Capitalization Rates
Midyear 2004 to Midyear 2005



Source: Real Capital Analytics, Grubb & Ellis

Total investment sales volume for Central California, nearly doubled in 2005 compared to last year. Once again, multi housing led the way with retail a close second. Offerings also nearly doubled in volume as rising interest rates seem to have convinced sellers to pull the trigger and put their property on the market. Despite rising asking prices and falling cap rates, investors continued to take advantage of the increase in inventory to place their 1031 exchange money.

2004 seemed to put Fresno, as well as the rest of Central California, on the map. A shift in the profile of buyers seeking \$5 million plus properties has occurred from predominantly private buyers to investment groups and institutional buyers. In 2004, 93 percent of the buyers of multi housing properties in Central California were private investors. In 2005, only 58 percent were private investors. This trend followed in the retail sector where 80 percent of the buyers in 2004 were private investors and only 22 percent were private buyers in 2005.

Last year we asked, "when will sale prices reach their peak and when will interest rates rise enough to cool off the sales market?" We continue to ask the same questions today. So far, interest rates ticking up have not slowed demand and buyers continue

to outnumber sellers. But as inventory increases, supply and demand may level out, cooling the market slightly, driving cap rates up a bit and leveling off escalating sales prices.

Subdivision activity remains strong throughout Central California with approximately 13,000 single-family homes coming on the market within the next two years in Fresno/Clovis alone. In addition, approximately 2,600 units of multi family housing are in the construction pipeline for the same area. Demand for development land is at an all time high. Developers and speculative investors are buying land in Central California that is 10 plus years out from development. A number of former farmers, crowded out of farming by development, have cashed out and turned investor placing their 1031 money in future development land.

The retail market remains hot and new developments are even hotter. Power centers are planned up and down the Valley, regional centers are coming out of the ground and neighborhood shopping centers are popping up on multiple corners in newly constructed neighborhoods. National retailers are flooding into the Central Valley, including the first Bass Pro Shops in California.

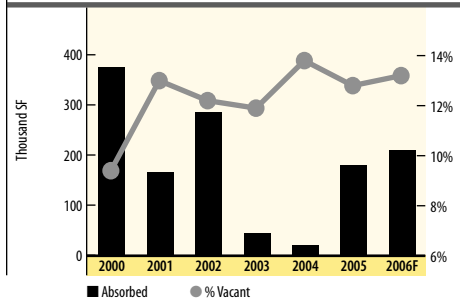
What to expect in 2006? The magic eight ball says, "Continued population and job growth in Central California, coupled with an inventory of quality investment properties, will keep the investment market strong."

Key Investment Transactions
2005

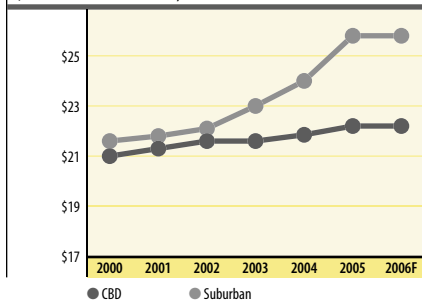
Buyer	Seller	Property Type	Property Name	Size	Sales Price (millions)
Jagdish Kumar, ETAL	Jim Estes	Multi-Tenant Retail Center	Bullard-Fwy 41 Retail Center	10,942	\$2.8
Chan Ung Park & Assoc.	Fresno Housing Authority	Retail	Former Kmart	99,500	\$4.0
Moates	Campoy / Leal	Multi Housing	El Dorado Apartments	16 units	\$1.1
Fred Eichel a/o Assignee	Santa Ana Condominiums Assoc.	Multi Housing	Sutter Village	44 units	\$5.3
William Shubin	Audrey S. Negley, Guardian	Multi-Tenant Office Warehouse	Negley Business Park	41,000	\$2.1

Positive net absorption and strong demand from owner-users buoyed the market, but could keep pace with new construction deliveries. Vacancy rose in 2005 and is expected to do the same in 2006.

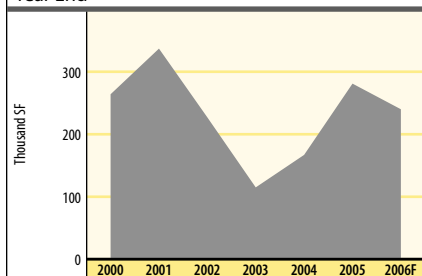
Vacancy and Absorption
Year End



Class A Asking Rental Rates
\$/SF/Yr. Full Service, Year End



SF Under Construction
Year End



Reno's vacancy dropped in early 2005, but new construction deliveries throughout the year pushed it up to 12.8 percent by year-end. A continuance of the relatively slow leasing activity during the past year and firmly rising interest rates should cause a slowdown in speculative development and work to stabilize the market in 2006.

The pace of speculative development and the lack of pricing power in Class A space will drive developers to reexamine speculative plans in 2006. The lack of tenants outside the finance and home construction industries is also cause for concern among developers. Only projects with substantial preleasing and healthy prospects will get the go-ahead from developers and bankers. Rising interest rates will also play a role in projects, as underwriting criteria begins to stiffen. Several existing projects will continue into 2006, which include a variety of garden office and Class A space.

Low cap rates were very enticing for sellers and it led to three of the four large CBD buildings changing hands over the past five quarters. The fourth is very likely to change hands in early 2006. Look for these new owners to attempt to reap the rewards of city redevelopment efforts and the multitude of residential development downtown. Government agencies will continue to make up the majority of CBD tenant rosters. Vacancy rates have climbed significantly downtown due to tenant relocations to other markets and suburban locations. One downtown building now contains nearly 80,000 square feet of vacant space. Rents should inch

upward in the CBD as downtown rents are 10 to 15 percent below competing suburban product.

Investment product in 2006 will continue to be in high demand, but could taper off. The expectation of increased borrowing costs throughout the year will likely reduce the amount of capital chasing investment-grade properties. Demand will fall from very high to high levels with Class A product in suburban locations continuing to achieve superior cap rates.

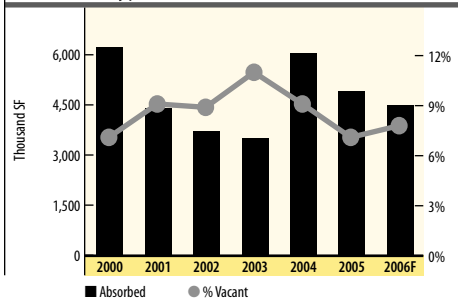
Cap rates remain in the 6.5 to 8.0 percent range for Class A product, which is attractive enough to generate multiple offers. Expect investor interest to continue, even though supply of product with quality tenants will remain constrained. Class B buildings are seeing cap rates of 8 to 9.5 percent, often with vacancies.

Developers of garden office product will need to show restraint since the market has reached equilibrium. This decline in demand, excessive speculative construction, coupled with increased vacancy shows signs of prolonged weakness. Market trends will cause pricing to remain similar to that reached in 2005 - \$230 per square foot.

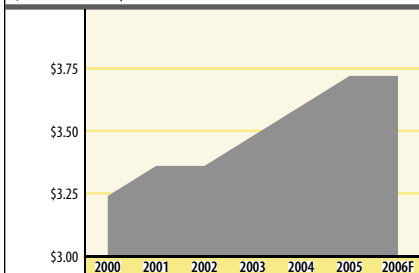
With the lack of tenant activity and vacancy increasing, concessions will reappear for quality tenants. Tenant improvement allowances for new space will climb to a range of \$35 to \$38 per square foot driven by construction costs and higher vacancy rates.

Healthy economic conditions and falling vacancy rates set the stage for developers to open the construction floodgates in 2005.

Vacancy and Absorption
All Product Types – Year End

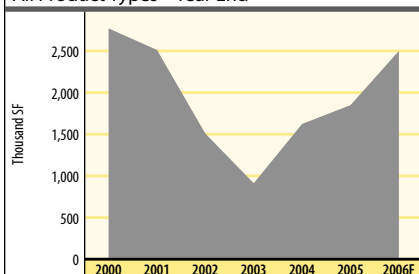


Asking Rental Rates*
\$/SF/Yr. NNN, Year End



* Warehouse/distribution space

SF Under Construction
All Product Types – Year End



Early in the year, the market's major speculative developers were poised to begin construction on 3 million square feet, but as the year unfolded, it became clear that many of the anticipated big-box developments would not start until 2006. Speculative projects completed in 2005 totaled just over 1.25 million square feet and build-to-suit activity added another 625,000 square feet, bringing the total to 60 million square feet in the Northern Nevada marketplace. Gross absorption for the year was 4.9 million square feet, and with little new space added to the market, the vacancy rate dropped to a five-year low of 7.1 percent.

Developers remained cautious, justifiably so, with the unexpected loss of several large tenants. The subsequent addition of their space to the market stabilized a gap in big-box availability. Construction costs continued to rise during the year and with so much construction taking place, the permit process has increased from 30 to 45 days, in 2004, to 60 days in 2005. Lease rates increased on average by 5 percent with rates for 100,000 square feet and above ranging from \$0.22 to \$0.34 per square foot per month. Land prices inside the central business area leveled off at \$8.50 to \$10 per square foot, accommodating flex/industrial condo development. Prices inside the central city are now prohibitive for any kind of big-box development, increasing demand in suburban industrial parks. With low interest rates through most of the year, developers sold out almost all their condo flex space. Suburban industrial land asking prices

increased 15 percent from \$1.95 to \$2.25 per square foot in the Tahoe Reno and Nevada Pacific industrial parks. The Spanish Springs Industrial Park, just north of the Sparks city limits is priced from \$3.50 to \$4.50 per square foot.

Notable new businesses to the Northern Nevada market include K2, Fleximat, Fosdick Fulfillment and Amerisource Bergen. Expansions in the existing tenant base included Mac Truck/Volvo, Hopkins, Frick Management, AC Coin, ITS Logistics and APL Logistics. The largest addition to our market was the announcement of a new 890,000-square-foot build-to-suit distribution center for Wal-Mart in the Tahoe Reno Industrial Park. Wal-Mart's announcement created a frenzy of interest and activity for the new park, generating reservations and sales for almost 1,000 acres in the first phase of the park.

We expect construction will continue at about the same pace with the addition of 1.5 million square feet of speculative space and 1.5 million square feet, or more, of build-to-suit space. Fernley will experience new speculative construction for what has been traditionally an owner-occupied market, and the same can be expected in the Tahoe Reno Industrial Park. With the rise in interest rates, we can expect the capitalization rates to rise with them. The price paid for income producing property should level off in 2006 with demand still high, but a potential increase in inventory for sale may occur if those holding property are trying to time the market for the highest possible returns.

Advancing residential growth continues to drive new retail developments. In fact, the retail base is expected to grow by over 40 percent.

There is currently 3.25 million square feet of retail space in various stages of construction with another 1.34 million square feet in planning. When added to the existing 11 million square feet of retail space, new development will increase our total by a remarkable 42 percent over the next two to three years.

Dominant areas of retail development include the expanding South Reno sector and Spanish Springs. Centers opening in South Reno in 2005 included Damonte Ranch Town Center, Sierra Home Center South Virginia Commons and Double Diamond Town Center. Each center has second phases that are scheduled to open in 2006. Opening in 2006 in South Reno will be Summit Sierra's Phase I as well as in-line shop space at the Village at Double Diamond.

In Spanish Springs there are five projects totaling 1.36 million square feet currently under construction. In addition there is another 1.34 million square feet being planned in the Sparks and Spanish Springs for construction in 2006-07.

Vacancy rates have risen from 5.4 to 6.7 percent due to the repositioning of two large furniture stores and the closure of another, the relocation of two large grocers

and new inventory being brought on line either vacant or in various stages of lease-up.

As new projects fill and home building continues, new retail opportunities will surely materialize. For now, rapid growth of our retail base in the next three years has many wondering if the point of saturation is nearing. Grocers nervously await the five Wal-Mart neighborhood markets coming to various new and infill locations to see what market share they will draw.

The revitalizing downtown Reno area has some 1,300 condominiums under construction or under conversion from former hotel uses. Several developers are planning ground floor retail projects to accommodate these new urban dwellers. In Northwest Reno, Ridgeview Plaza will add an additional Phase II and in Southeast Reno the Longley Town Center will continue construction for delivery in 2006.

Retail rents continue to move upward. Existing center rents range from \$1.15 to \$1.85 per square foot, with a mid-range of \$1.45. New centers are leasing at \$2.35 to \$3.00 per square foot with finished pad sites in the \$16 to \$24 per square foot range, plus offsites and other pass-throughs reimbursements.

Significant Centers Opened in 2005, Under Construction or Planned for 2006

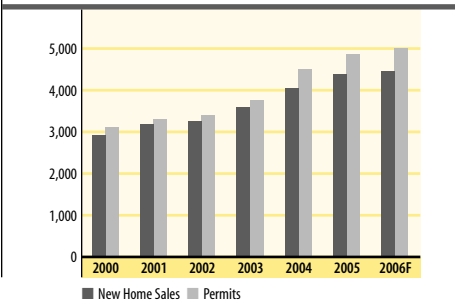
Center Name	Center Type	Size (SF)	Status	Anchors	AREA
Sierra Summit (Phase 1)	Open Air	657,348	Under Const	Dillards, Pottery Barn, J.Jill, Banana Republic	So. Reno
Damonte Ranch Town Ctr	Power	539,000	Phase 1 open	Home Depot and RC Willey opened Q3 and Q4 2005	So. Reno
Sparks Galleria	Power	642,000	Under Const	Home Depot, Costco, Gold's Gym, World Mkt	Sp. Springs
Sparks Crossing	Power	300,000	Under Const	PetsMart, Bed Bath & Beyond, Best Buy, Old Navy	Sp. Springs
Spanish Springs Town Ctr	Lifestyle	300,000	Under Const	Kohl's opened Q404, Super Wal-Mart to open 2Q06	Sp. Springs
Longley Town Center	Neighborhood	134,000	Under Const	Gold's Gym	SE Reno
Legends at the Marina	Open Air	700,000	Planned	Red Development- before City for approval	Sparks
Village at White's Creek	Neighborhood	91,000	Planned	Grocery Anchored planned for 2006	So. Reno
Eagle Landing	Neighborhood	131,000	Planned	Drug Store anchored planned for 2006	Sp. Springs

Reno

Land and Investment

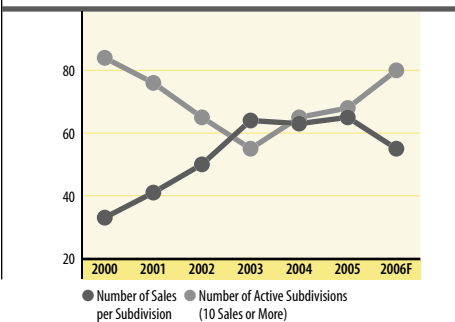
Land prices continued to escalate in the first half, but cooled in the second half of 2005 due to the skyrocketing cost of water rights and a steady uptick in interest rates. Still, they were up an average of 24 percent for the year.

Supply and Demand

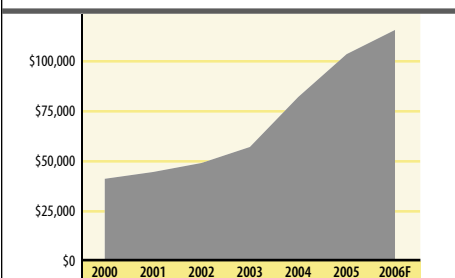


Source: Permits - BAW

New Home Subdivisions



Land Prices



Land

68 active communities generated nearly 4,400 new home sales this year in the Truckee Meadows, setting another sales record for the area. The familiar waiting lists and lotteries that homebuyers experienced the past three years are beginning to disappear. A boost in the supply of new homes is expected to continue over the next 12 months as new communities will start in such projects as: Damonte Ranch, Curti Ranch and Bella Vista Ranch in South Reno and Wingfield Foothills, Pioneer Meadows and Kiley Ranch in Spanish Springs.

In an attempt to capture the buying demand for housing under \$350,000, a variety of attached housing product will be under construction in 2006. The development of mid-rise condominiums and hotel/motel conversions in the downtown area are creating a new submarket for attached housing. The City of Reno is creating several new Regional Centers in an attempt to solve future transportation issues and alleviate congestion at the I-80/US 395 interchange. These centers will offer high density commercial and residential land uses that will be linked to future transportation systems.

The new home market will be very active in 2006 as a spike in supply will create a more competitive market among homebuilders. Land is a scarce resource in the Truckee Meadows and will continue to appreciate even as home prices start to level. Land appreciation rates should hit the 12 to 15 percent range and may go higher if interest rates and water costs stabilize.

Investment

The investment market continued to thrive in 2005. The biggest constraint was the lack of property available for sale. This shortage, along with low interest rates, forced a drop in cap rates over the year. Seven to 8 percent cap rates became the norm, with even lower figures in the multifamily market.

Despite a high vacancy rate, the office investment market held its own this year. With abundant 1031 trade money available, many smaller, newly constructed, office condos closed during the year. This will continue in 2006. There were fewer traditional office sales in the market this past year, but that could change if vacancy rates tighten next year.

Retail investments remained popular in the region and several large shopping centers were sold. A healthy occupancy rate will keep investment interest going strong during 2006. Cap rates for newer retail investment properties will stay in the 6.5 to 8 percent range.

The industrial investment market also saw a healthy year in 2005. Although not as active as the retail market, several larger properties closed this year. We will see more development of smaller flex type product geared toward the owner-user.

Multifamily properties will continue to sell. Cap rates for smaller complexes are ranging from 5.5 to 7.5 percent. There were numerous sales during the past year and with the steady population growth in Northern Nevada all predictions point to another healthy year.

Company Profile

Grubb & Ellis partners with clients to produce innovative real estate solutions to help solve business issues.

Grubb & Ellis Company is one of the world's leading full-service commercial real estate organizations, providing innovative, customized solutions and seamless service to owners, corporate occupants and investors throughout the globe. Research plays an integral role in our business, and our professionals have earned a reputation for providing informed solutions that combine local market knowledge with detailed analysis. This approach, plus specialized expertise in economic issues and property types, provides our clients the information they need to achieve their corporate and business goals. We have the people, resources and best-in-class processes to deliver superior service whether a client needs help with a single location or multiple global facilities.

Service Delivery to Meet Client Needs

With one of the industry's most extensive office networks, Grubb & Ellis continues to broaden its resources and structure itself around the needs of our clients. We are flexible and, more importantly, we tailor our services to offer clients the innovative solutions they've come to expect in virtually any market around the globe. Our comprehensive services platform includes three core business lines: transaction services, management services and consulting.

Transaction Services

Grubb & Ellis' transaction performance has enabled us to grow into one of the largest and most experienced real estate brokerage

firms in the country, with more than 100 offices in the United States alone. Our teams of specialists cover all aspects of commercial real estate, including office, industrial, retail, investment, multi housing and land. These teams work closely with owners, occupants and investors to assess the ways in which real estate issues relate to – and contribute to – an organization's strategic business objectives.

Transaction services include:

- Site selection
- Space expansion and consolidations
- Sale and lease negotiations and renewals
- Subleases/dispositions
- Facility relocations and acquisitions
- Build-to-suits
- Real estate needs analysis
- Thorough assessment of leasing opportunities
- Interpretations of market trends relevant to initiatives
- Occupancy projections and budgeting
- Qualification of prospects
- Recommendations on pricing and positioning for long-term value
- Competitive analysis
- Maximization of occupancy levels

Management Services

Grubb & Ellis delivers integrated property, facility and asset management services to a diverse corporate and institutional client

base. We provide customized programs that focus on reducing operating costs, retaining tenants and securing long-term income streams that add value to properties. Our management professionals are experienced in many asset types – including manufacturing and warehouse facilities, data centers, retail outlets, medical office and multi housing properties. We've earned a reputation for consistent quality service, demonstrated by the fact that nearly one-third of all new property and facility management assignments come from existing clients.

Clients also count on us for:

- Business and fulfillment services
- Engineering services
- Energy management
- Call center support
- Emergency preparedness planning

Consulting Services

As broader business goals increasingly meld with site-specific real estate issues, Grubb & Ellis has assembled a team of professionals dedicated to helping clients think through critical issues and create detailed real estate strategies that complement business goals. Changes in ownership, market shifts, new regulations, expansions, consolidations and procurement and outsourcing initiatives all have a significant impact on your specific real estate plans. Acting as a partner, or as the adjunct real estate department, we help our clients examine the range of issues associated with their needs and build detailed real

estate strategies to complement their short- and long-term objectives. Our professionals understand industry trends and business needs and how to translate them into real estate assets and operations.

Specific solutions include:

- Strategic portfolio planning
- Business location services
- Valuation and appraisal issues
- Due diligence
- Financial and investment analysis/cost reduction

Depth of Specialized Expertise

Through Grubb & Ellis' Global Client Services, our Corporate Services and Institutional Investment groups provide specialized teams of professionals that are dedicated to solving multi-market real estate issues for the largest corporate and investment clients. These two groups offer expertise in office, industrial, investment and retail properties within distinct industry specialties by identifying trends and business opportunities. Our professionals deliver effective real estate solutions through a single point of contact, ensuring effective communication between clients and the vast resources of the Grubb & Ellis global network. Clients, in turn, gain immediate access to real estate professionals with the highest level of experience.

Solutions for the Corporate Client

When it comes to corporate clients, Grubb & Ellis has a deep understanding of the procurement processes, diversity requirements and reporting challenges of today's corporations. Global support resources, advanced technology and internal networking via sponsored specialty practices bring best-in-class execution to every assignment.

Areas of expertise include:

- **Tenant Representation Services:** Tenants with both single and multi-market needs capitalize on Grubb & Ellis' proprietary market research and extensive local market knowledge. Professionals assist throughout the space procurement process, from evaluating space needs and recommending creative solutions, to lease negotiation and move management.
- **Facility Management:** A pioneer in outsourced facility management services, Grubb & Ellis has the expertise to handle the most sophisticated facility requirements, including engineering services, transition support, centralized purchasing and financial reporting, technology evaluation and support, environmental and OSHA compliance, and 24x7 call centers.
- **Project Management:** Utilizing best practices in design and construction are additional ways Grubb & Ellis helps clients optimize value and improve operating efficiency. We understand development and tenant improvement projects. Smart, sound management following a systematic process ensures that projects progress on schedule and within defined cost criteria. Our project management professionals provide expert advice in the areas of planning, design management, construction and post construction.
- **Real Property Administration Services:** Through a dedicated service center, Grubb & Ellis provides comprehensive real property administration services for both leased and owned properties. Utilizing our proprietary database and trained professionals, we offer clients value-added services including lease abstracting, audit and database development, rent and

operating expense processing, lease escalation and CAM processing, and lease maintenance and reporting.

Solutions for the Institutional Investor

Grubb & Ellis assists institutional investors in the acquisition and disposition of institutional-grade assets across all property types on a local, national and global basis. The strength of the Institutional Investment Group lies in its collaborative platform, collectively sharing its knowledge and resources to benefit its individual clients.

In addition to many of the services we provide our corporate clients, institutional owners also look to Grubb & Ellis to maximize their investment returns through:

- **Property Management:** Our experience with a broad spectrum of property types enables us to provide customized solutions for some of the most prestigious corporate headquarters and Class A offices, as well as retail, manufacturing, warehousing and data centers.
- **Asset Management:** Grubb & Ellis develops and implements tailored asset management strategies that integrate proactive property management, focused marketing and leasing, and aggressive tenant retention efforts to achieve our clients' investment goals and objectives.
- Financial reporting, including cash flow analysis, proforma analysis and financial modeling
- General service and contract administration

For more information on our integrated service platform, please visit us at www.grubb-ellis.com.

Grubb & Ellis is one of the most widely quoted sources when it comes to real estate market trends and their implications.

Over nearly half a century, our Company has built a reputation for delivering some of the most consistent, reliable real estate research and analyses in the industry, providing our clients the information they need to make sound business decisions and establishing Grubb & Ellis as one of the most widely quoted sources when it comes to market trends and their implications. "According to Grubb & Ellis..." is heard consistently in board rooms and in the press, forming the basis of smart real estate decisions and overall business strategy. Respected business and trade publications, admired multi-market corporations and the industry's savviest owners and investors rely on us for timely, in-depth reports on both big-picture trends and significant local developments. *The Wall Street Journal, Bloomberg Business News, The New York Times, The San Francisco Chronicle, The Los Angeles Times, The Washington Post, The Miami Herald* and *Crain's* are just a few of the publications that look to Grubb & Ellis for expert commentary on the forces shaping today's commercial real estate landscape.

A network of 125 research professionals in more than 100 local offices leverage four components to achieve our unique and comprehensive research insights:

- ***Our professional research managers and their staff***, whose critical function it is to build the base of market intelligence in each office and provide published reports and custom analyses to our clients. Grubb

& Ellis pioneered the concept of hiring professional research managers to build the Company's research function, which is widely viewed as having the most accurate grass-roots level data in the industry. Incoming research analysts and brokers are trained to understand the nuances of the real estate cycle, inflection points in the cycle, leading indicators, and the actions and advice that are appropriate for each phase of the cycle.

- ***Our systems*** used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was a pioneer in the field of computerized market research and analysis. Most of the Company's offices have been tracking data for more than two decades. In addition to subscribing to the top property databases in the industry, since 1999 Grubb & Ellis has used a proprietary, centralized Web-resident data warehouse to track its property-specific data, including property details, images, available space, leasing and sales comparables, and tenant information, all in an easy-to-use format. The system is based on a rigorous set of research standards designed to ensure that data are consistent across markets.
- ***Our reports and publications*** through which we translate our extensive databases into analysis, insights and actionable recommendations for our clients. In addition to our annual national and local forecast reports, Grubb & Ellis produces quarterly *Market Trends* reports that analyze local

and national market conditions throughout North America by product type, quarterly capital markets reports, and white papers on timely topics.

- ***Our real estate sales professionals***, whose familiarity with the people and the property in their submarkets yields a daily, in-the-trenches grasp of changing market conditions. The creation of market intelligence is a team effort, with knowledge flowing constantly between our research teams and our sales professionals. This knowledge is integrated with our professionals' insight and experience, forming a solid foundation from which to advise clients, and giving Grubb & Ellis and its clients a competitive edge.

The field of real estate research is changing as rapidly as the industry itself, which is demanding more accurate data and sharper analysis, fueled by increasing market transparency, the securitization of real estate and the need for accountability to investors. And it's not just institutional investors who are driving the demand for stronger research. Corporations in all sectors of the economy are re-thinking their real estate strategies to free resources that can be more wisely invested in core business segments. They need timely, accurate and insightful market research to guide decisions. To meet this need, Grubb & Ellis will continue to invest in research with the goal of ensuring that our clients have access to the very best market intelligence in the industry.

Grubb & Ellis research teams across the country work together to ensure our clients have the most up-to-date market knowledge.

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Grubb & Ellis, California Retail Survey, Claritas, CoStar Group, The Gregory Group, IREN, The Meyers Group, Real Capital Analytics, REIS, SACOG, *The Sacramento Business Journal*, SRRI, State of California Employment Development Department, U.S. Census Bureau

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